Minneapolis Public Housing Authority

Portfolio Strategy

CSG | advisors

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Draft For Discussion

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Executive Summary

Asset Repositioning

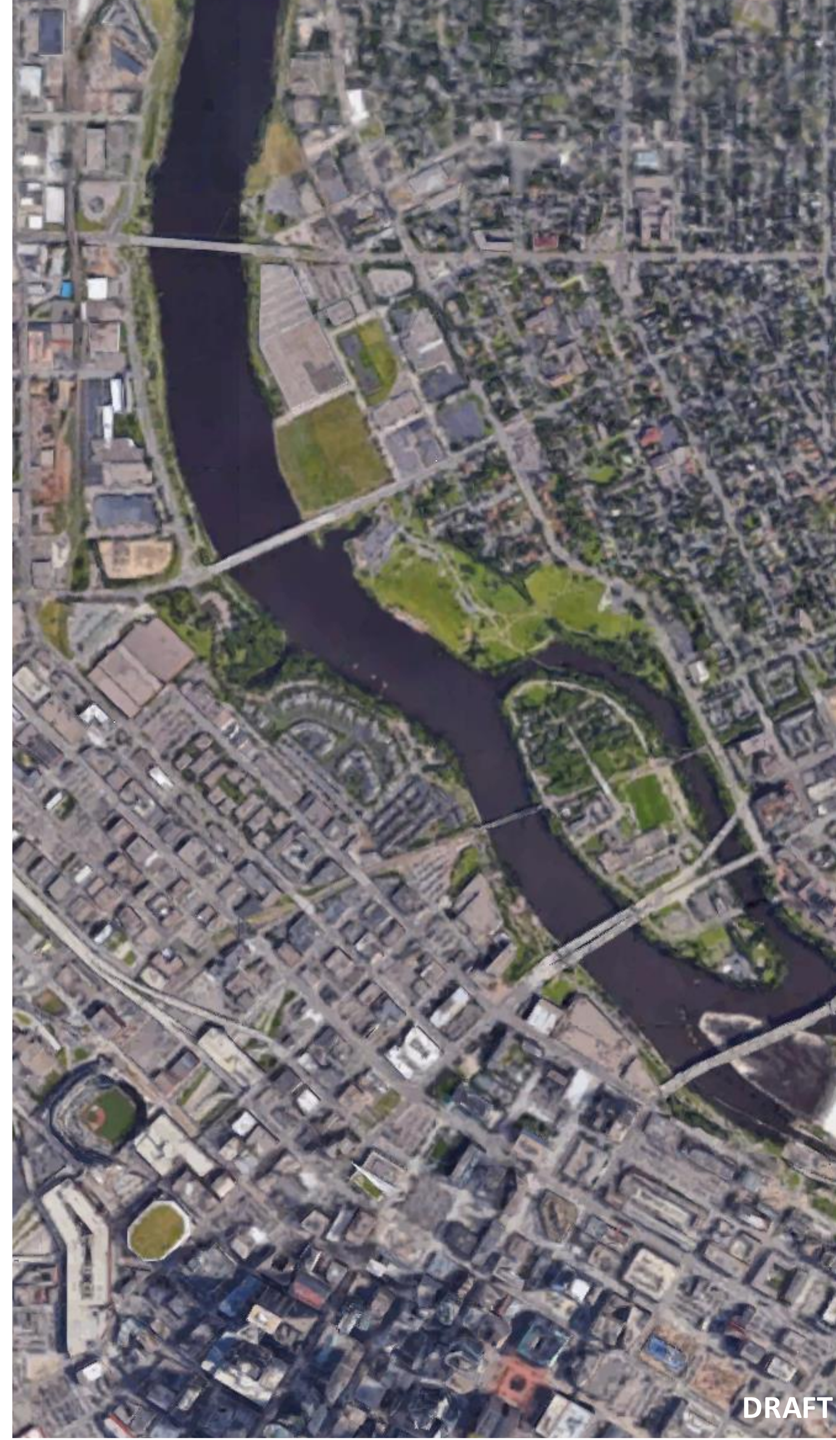
Portfolio Analysis: CSG Advisors worked with the Minneapolis Public Housing Authority (MPHA) to evaluate alternative approaches to address the capital needs at its Glendale Townhomes development (AMP 1), multi-family scattered sites (AMP 2) and senior/mixed high-rise buildings (AMPs 3 – 7).

CSG's work considered MPHA's Guiding Principles, including:

- Preserving existing and creating new affordable apartments.
- Ensuring long term financial viability.
- Structuring resources and utilizing tools to fully leverage funds.

Operational Analysis: CSG also worked with MPHA to analyze its public housing operations to identify efficiencies in order to reduce operating costs, allowing MPHA greater development funding opportunities to strategically leverage debt.

The following slide shows CSG's integrated approach to asset repositioning.



CSG Approach to Asset Repositioning

Analysis	Objective	Activities
Operational Analysis	Decrease expenses	▪ Review expenses and revenues ▪ Analyze personnel/utility metrics ▪ Assess work order processes ▪ Assess overhead functions ▪ Determine income/expense opportunities
Portfolio Analysis	Increase access to additional funds	▪ Review capital needs/property characteristics ▪ Assess financial tools available ▪ Evaluate financing options ▪ Prepare financial models ▪ Identify additional funding options
Asset Repositioning Strategy	Assess data to align both key and additional sources with agency priorities	▪ Set up feasible development program ▪ Establish phasing and timelines ▪ Provide critical path action items ▪ Assist in building capacity and provide development guidance

Portfolio Strategy

Site Recommendations

Strategic Plan

- Develop a comprehensive plan based on MPHA's 2017 portfolio strategy efforts.
- Present MPHA's plan at meetings convened with the City, Minnesota Housing, Federal Home Loan Bank, Hennepin County, Local Foundations, the HUD RAD Office, and the HUD Office of Public Housing/Special Applications Center.

Glendale Townhomes

- Consider opportunities for a mixed-income/mixed-use development program that creates additional affordable apartments.
- Procure a Development Partner that designs a program that allows residents in good standing the right to return and secures the necessary sources to make the project financially feasible.
- Consider options for Section 18 disposition to access voucher subsidy to financially support redevelopment activities.

Scattered Sites

- Further explore options to convert units from public housing to vouchers through HUD's Section 18 Disposition, voluntary conversion and/or Rental Assistance Demonstration (RAD) programs in order to increase revenue to cover expenses and capital improvements.
- Establish a local revolving loan fund to address backlog of capital improvements.
- Use MPHA reserve funds and raise local foundation/bank funds by marketing the unique characteristics of the scattered sites (stabilizing integrated workforce housing in opportunity areas).

Portfolio Strategy

Site Recommendations

High Rise Developments

- Further explore options to convert units from public housing to vouchers through HUD's Section 18 Disposition, voluntary conversion and/or Rental Assistance Demonstration (RAD) programs.
- Confirm MPHA's desired approach and program the first group of sites over the next five-years.
- Request that the City of Minneapolis set aside volume bond cap for senior public housing preservation projects.
- Determine timing to competitively pursue possible financing sources to stabilize housing for the vulnerable aging population.
- Certain high rise sites have opportunities for infill residential and commercial development. CSG recommends that MPHA, as part of its predevelopment process, assess the feasibility of adding more units and/or commercial space, based on the estimated construction costs and funding sources available to cover the additional development costs.

Overall

- Further evaluate and consider the operations savings strategies proposed by CSG.
- Inventory ongoing and future public and private projects that could present collaborative revitalization efforts.
- Further analyze potential energy performance opportunities to incorporate into rehab/new construction projects.
- Evaluate the feasibility of infill opportunities for the high-rise and scattered sites during predevelopment.

Portfolio Strategy

Site Recommendations

Heritage Park

This site, which includes 440 mixed-income apartments, represents a unique opportunity for MPHA since in 2018-2021 the phases will reach the compliance period, providing MPHA a right of first refusal to purchase.

CSG recommends MPHA take the following steps:

- Confirm the condition of the apartments and funding needed.
- Review the transactional documents with legal counsel.
- Determine if reasonable terms can be negotiated with the Developer and LIHTC Investor.
- Convert the 200 (potentially more using transfer of assistance) existing public housing units to RAD.
- Refinance the existing debt, if feasible based on the condition of the units.

Considerations

- The funding needed to rehab the units at this site will compete with the capital needs at MPHA's public housing sites.
- The vacant land at this site could represent future collaborative development opportunities with public and private investors.

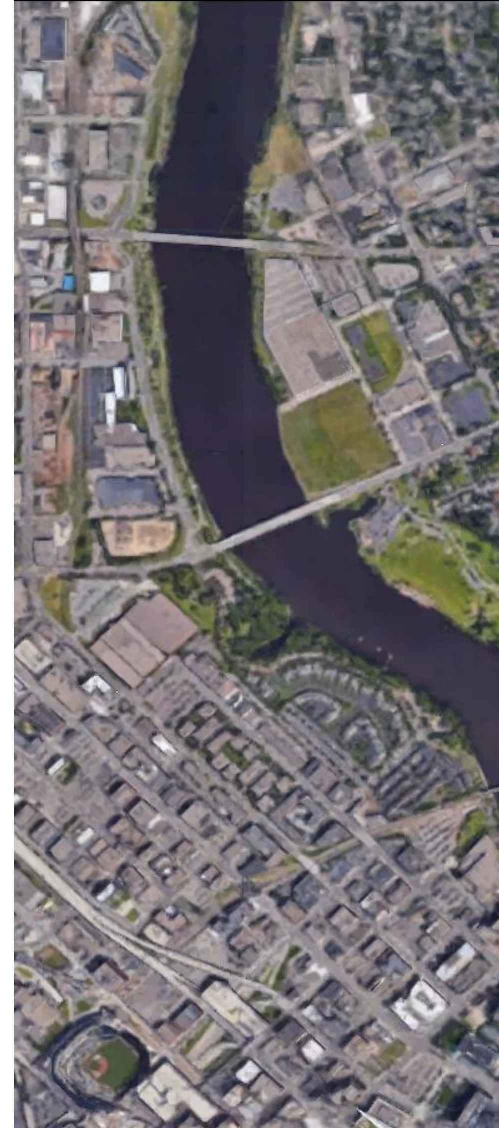
Portfolio Strategy

Financing Recommendations

To begin to address MPHA's capital needs, multiple conversion and financing options must be pursued. CSG recommends that MPHA pursue the following at the end of 2017/early 2018 (each of the items listed below are discussed in greater detail in the following slides).

- Rental Assistance Demonstration (RAD) Program
- Tenant Protection Vouchers (TPVs)
- Minneapolis Tax Levy
- 4% LIHTC/Bonds (depending on outcome of the Tax Cuts and Jobs Act)
- 9% LIHTC
- Minnesota Housing Programs
- City of Minneapolis Programs
- Federal Home Loan Bank- Affordable Housing Programs
- Private Foundation and Bank Funds

These programs and funds will need to be leveraged with a portion of MPHA's capital funds, reinvestment of MPHA's developer fee and MPHA reserves.



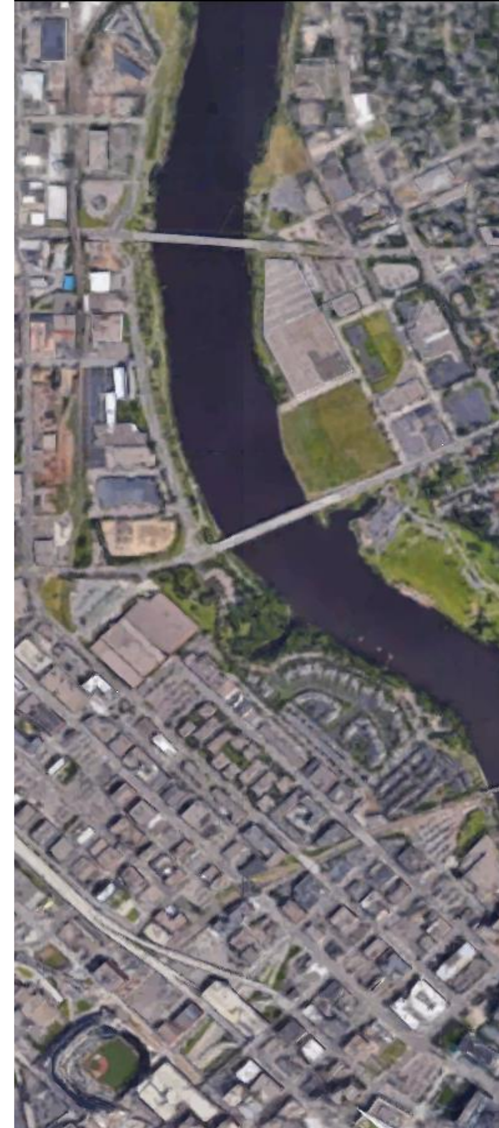
Portfolio Strategy

Financing Recommendations

Rental Assistance Demonstration (RAD) program

CSG recommends that MPHA place its sites on the RAD waiting list and begin submitting RAD applications, to lock in the 2016 RAD rents.

- It is expected, based on recent historical trends that the base RAD rent will decrease annually.
- MPHA can choose to return its Commitment to enter into a Housing Assistance Payment contract (CHAP) or delay the start of the process.
- Housing authorities with similar physical needs to MPHA ($97K average per unit), often conduct a portfolio strategy to determine a strategic approach in applying available financing and potential gap funding sources, to bring as much public and private external resources to their projects and align redevelopment efforts with their agency priorities.
- Based on the availability of key financing source (bonds/4% LIHTC), housing authorities move forward with one project at time to determine the site-specific sources and uses required for financing.
- At this time, HUD's voucher programs are best suited to address the physical needs of housing authority assets and stabilize site operations because they: provide higher operating subsidy levels and a portion of those subsidies can be used to support debt to fund improvements.



Portfolio Strategy

Financing Recommendations

Rental Assistance Demonstration (RAD) program

Without converting the public housing units to RAD or TPVs, MPHA's options are limited as further elaborated below:

- While MPHA's public housing units receive capital funds and operating subsidies from HUD, subsidy levels are insufficient to address immediate needs of the properties and future repairs and rehab.
- Congress is not expected to appropriate higher levels of funding for public housing modernization in the future.
- At this time, housing authorities cannot leverage financing for rehabilitation of public housing units, except by borrowing against future capital funds (Capital Fund Financing Program) or using operating reserves (Operating Fund Financing Program).
- Placing either CFFP or OFFP on public housing units restricts MPHA's ability convert to RAD and to leverage private financing in the future. CFFP and OFFP funds leveraged for specific sites must be paid back prior to or at conversion.
- To address the 20-year physical needs, which range from $48K to $127K per unit, the operating subsidy program needs to be sufficient to cover operating costs, mortgage payments (including lender-determined debt coverage requirements) and replacement reserves.
- MPHA public housing sites, with the exception of certain scattered sites, does not operate at break even and certainly does not have revenue to fund standard maintenance, capital repairs and reserves.

Portfolio Strategy

Financing Recommendations

Tenant Protection Vouchers through Section 18 or Voluntary Conversion

CSG recommends that MPHA pursue the conversion of public housing units to vouchers through HUD's Section 18 or voluntary conversion programs, providing greater financial feasibility than RAD.

- **Higher project revenue**: HUD funds TPVs at payment standard levels, while RAD is revenue neutral, HUD provides public housing operating subsidy/capital funds.
- **Greater flexibility in the rehab scope**: making a greater number of projects financially feasible.

TPVs - Replacement Versus Relocation Vouchers

HUD makes an important distinction between replacement and relocation vouchers (further described in PIH Notice 2015-03), which should be considered when structuring the specific program for each site.

- **Replacement vouchers** replace the public housing unit and remains in MPHA's inventory.
- **Relocation vouchers** is assistance tied to the household occupying the unit at the time of disposition and sunsets if the household no longer receives subsidy.

Portfolio Strategy

Financing Recommendations

Tenant Protection Vouchers through Section 18 or Voluntary Conversion

For Section 18 of the Housing Act of 1937 approval, HUD typically requires that units meet its obsolescence test. HUD generally considers modifications not to be cost-effective if costs exceed 62.5% of total development costs (TDC) for elevator structures and 57.14% of TDC for other types of structures.

CSG has provided MPHA with a calculator tool that provides a preliminary assessment of the obsolescence threshold for the Scattered Sites and the Highrise Buildings. The sites that either met the financial threshold for obsolescence based on Ameresco's physical needs assessment or warrant further review include:

High Rise Buildings: Rainbow Terrace and Friendly Manor (1900 3rd St and 809 Spring St).
Sites that should be examined more closely, since they appear close to the threshold include: Elliott Twins, Cedar High Apartments, Dickman Apartments, James Helzer Manor.

Scattered Sites : Ave S appears to meets obsolescence
Sites that should be examined more closely: Ave N, St., Ave S, Ave N, Ave S, Ave.

Glendale Townhomes: Based on Ameresco's PNA, the immediate needs at Glendale do not appear to meet the obsolescence threshold. The 20-year needs appear to meet the threshold. This warrants further review.

Voluntary Conversion approval, HUD requires that MPHA meet all components of Section 18 and demonstrate that the units are non-viable by comparing costs operating the units as public housing versus tenant-based rental assistance.

CSG has provided financial models for MPHA's sites using the Per Unit Cost and Housing Choice Voucher Administration Fee in the operating assumptions.

Portfolio Strategy

Financing Recommendations

Tax Cuts and Jobs Act Anticipated Impact on Development Financing

Congress recently passed the Tax Cuts and Jobs bill. The House and Senate versions of the bill are currently being reconciled by the Committee on Ways and Means. The final bill is expected in the coming months.

The following items have been proposed in the bill, but are not yet in final form.

- **Lower the Top Corporate Tax Rate from 35% to 20%,** included in both House and Senate Bill.
  Potential Impact: Decreases value of tax credit to investors, which will lower tax credit pricing and total LIHTC equity. CSG assumed tax credit pricing of $0.92 in the financial models to develop the portfolio strategy. This pricing may drop further as a result of the lower tax rate.
- **Eliminate the Tax Exemption on Private Activity Bonds (PABs)**, this was introduced in late 2018 and is only included in the House Bill.
  Potential House Bill Impact: 4% tax credits, are only available to projects financed with private activity bonds. Eliminating the tax exemption would make most 4% LIHTC transactions infeasible. The use of PABs/LIHTC is a key component of the portfolio strategy CSG developed for MPHA. If the tax exemption is eliminated, MPHA's redevelopment efforts will be significantly hindered.
- **Retain the Low-Income Housing Tax Credit (LIHTC)** no proposed modifications to the 9% tax credit. The 4% tax credit relies on PABs, which are described above.

Portfolio Strategy

Financing Recommendations

9% Low-Income Housing Tax Credits (LIHTC)

For 2017, the statewide distribution of approximately $12.97M in LIHTC includes: MHFA $9.6M, Minneapolis (as sub-allocator) $1.23M, with the balance of $2.14M going to four other sub-allocators.

- For projects located in Minneapolis: 1) the Minneapolis Community Planning and Economic Development (CPED), who administers the program, recommends awards to City Council; 2) City Council considers approval based on the recommendation; 3) The Minneapolis Housing Finance Board (MHFB) formally allocates the credits.
- The City awards approximately 2 to 3 projects annually; the maximum project allocation is $1.2M.

Private Activity Tax Exempt Bonds/4% LIHTC

Accessing Minneapolis Entitlement Housing Revenue Bond funds has recently become very competitive over $200M was requested in 2017, exceeding Minneapolis' $36.7M - 2016 carryforward and $49.7M - 2017 funds.

- Minneapolis accepts pre-applications in October/November and applications in January of the following year.
- Projects must close in 180 days upon bond award.
- Minneapolis sets total development cost (TDC) containment thresholds each year. For 2018 rehab of units occupied by singles the threshold is $160K; a number of MPHA's sites have higher TDCs based on Ameresco's physical needs assessment, so MPHA's design team will have to carefully develop the scope of work and look for opportunities to value engineer.

Portfolio Strategy

Financing Recommendations

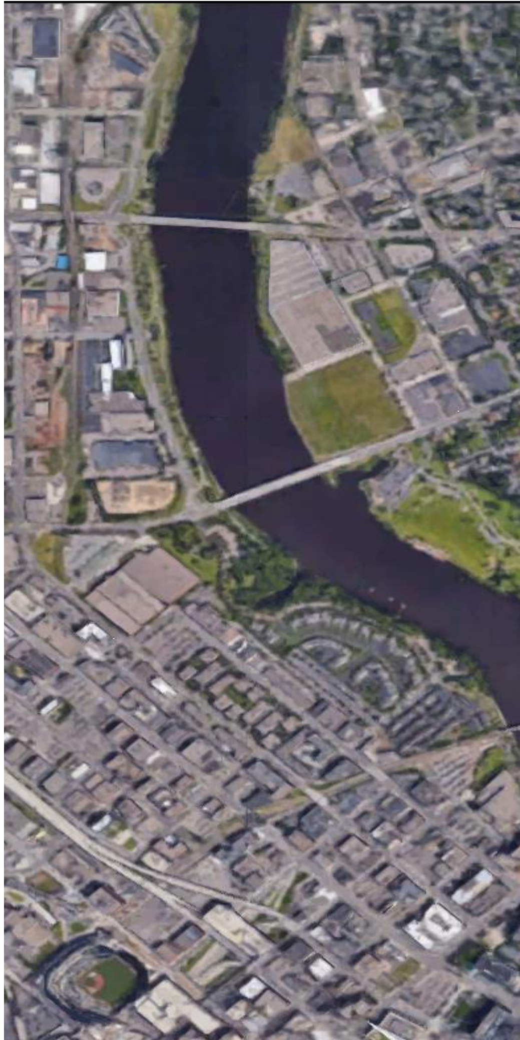
Tax Levy

Annual tax levy funds can be combined with other funding sources and contributed to privately owned tax credit partnerships.

- The difficulty arises if MPHA or the City issues tax-exempt governmental purpose bonds to borrow against future revenues.
- The proceeds of such tax-exempt governmental purpose bonds generally cannot be used for private purposes such as a tax credit partnership.
- CSG recommends discussing possible approaches with bond counsel to determine the optimal use of these funds. Options may include:
  a) contributing annual tax levy revenues (unleveraged) to LIHTC developments
  b) contributing proceeds from a taxable bond to LIHTC developments
  c) contributing proceeds from tax-exempt governmental purpose bonds to non-LIHTC developments.

- In addition to financial considerations, MPHA should strategically determine to which projects the tax levy should be applied, since it will be funded by taxpayers. There may be certain site locations that should be prioritized to generate community support and advocacy for the levy and future affordable housing tax levies.

Portfolio Strategy



Financing Recommendations

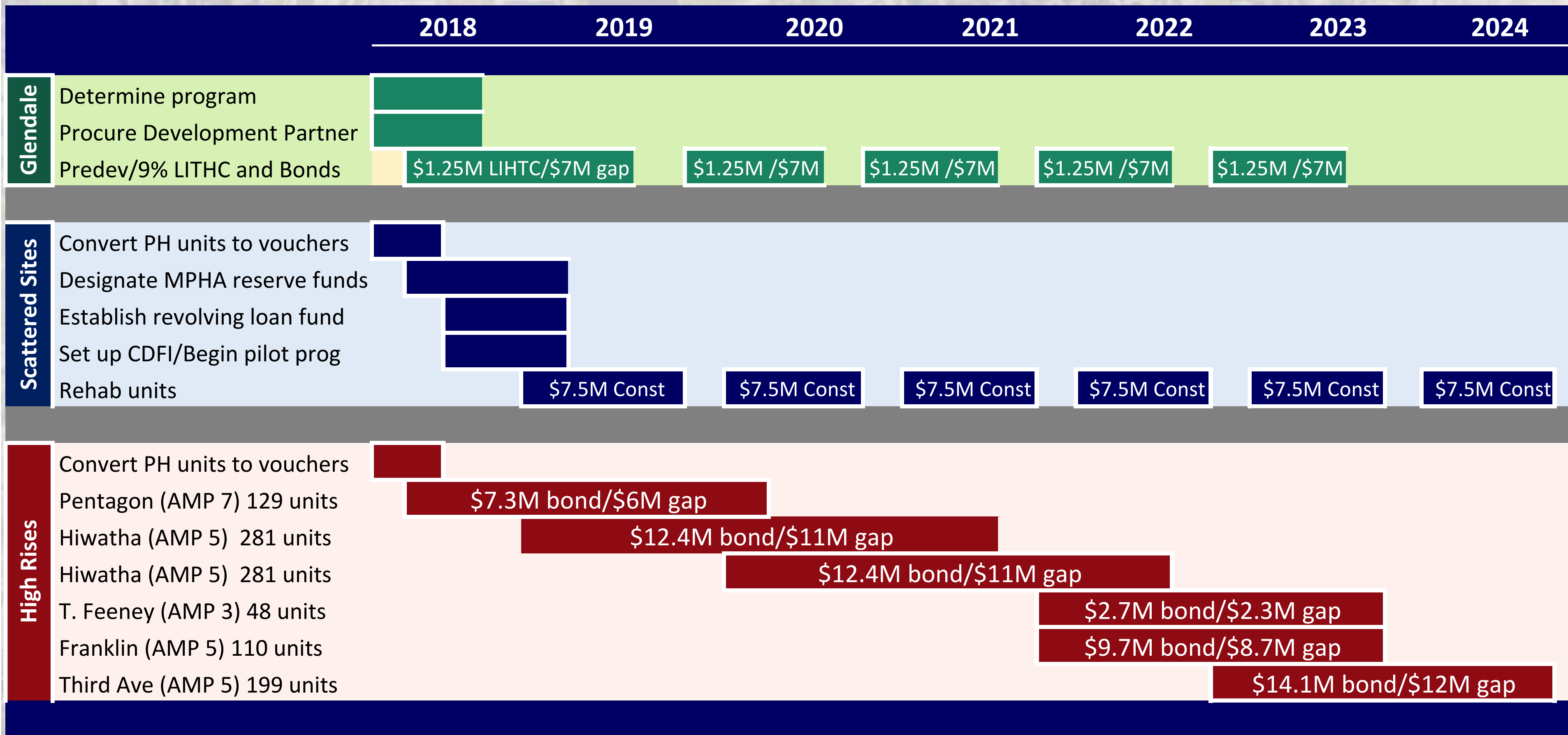
Tax Levy

Once the availability of funds from the tax levy are available and the program requirements are in place, MPHA should assess the following to determine which sites to apply these funds:

- Consider projects with low equity to hard cost ratio (CSG Rankings), since these projects are not benefiting as much from the leveraging of tax credits.
- Use Moving To Work (MTW) flexibility to enhance rents to the full payment standard to increase the amount of debt and decrease the amount of funds needed from the tax levy in order to fund more units.
- Both low revenue (rent) and low expenses makes these projects highly sensitive to changes in rent and therefore able to leverage more supportable debt.

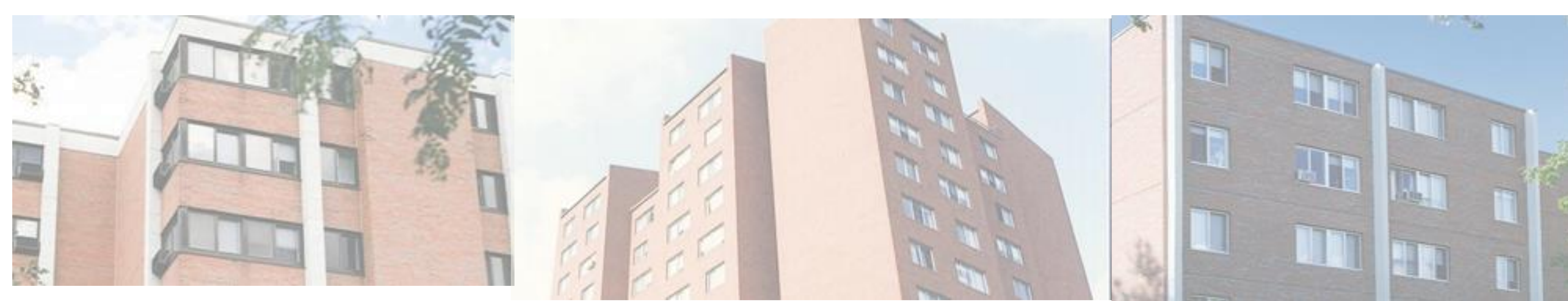
Summary Schedule

Glendale Townhomes (184)
Scattered Sites (746)
High Rise Buildings (5,006)



Please note the high rise bond allocation needed shown in the schedule above is based on CSG's baseline financial model.

High Rise Acq/Rehab Financial Summary



Year	Project (Apartments)	Bonds (% Mpls allocation)	Net Gap (after 50% Dev Fee Inv)	Equity	Dev fee
2019	Pentagon AMP 7 (129)	$7.3M (15%)	$6M	$3.7M	$599K
2020	Hiawatha I AMP 5 (140)	$12.4M (25%)	$11M	$7.9M	$1.1M
2021	Hiawatha II AMP 5 (141)	$12.4M (25%)	$11.1M	$7.9M	$1.1M
2022	T. Feeney AMP 3 (48) Franklin AMP 5 (110)	$12.4M (25%)	$11M	$7.9M	$1.1M
2023	Third Ave. (199)	$14.1M (28%)	$12M	$8.9M	$1.2M
TOTALS	**667 units**	**$58.6 M**	**$51M**	**$36.3M**	**$5.1M**

Please note: The numbers shown in the financial summary above are based on CSG's baseline financial model. Minneapolis is expected to make available $49.7K in volume bond cap annually for affordable housing projects.

Financing

Key Financing Sources
MPHA Property Types/Number of Apartments

Glendale Townhomes (184)	Scattered Sites (746)	High Rise Buildings (5,006)
A	**B**	**C**
Mixed-Finance Demolition-Disposition Co-Developed New Construction Mixed-Income	**RAD Conversion Self-Developed Rehab**	**RAD Conversion Self-Developed Acquisition/Rehab**
Demolition-Disposition 9% LIHTC Conventional Financing Gap Financing	Expense Reduction Strategy Local Revolving Loan Fund MPHA Reserve Account	Expense Reduction Strategy Tax Levy *or* 4% LIHTC/Bonds Gap Financing

Financing

Possible Financing Sources

MPHA Annual Capital Funds Allocation

Amount: 60% for development activities (relocation, demo, construction/rehab)

Model assumes capital funds decline over time.

Total estimated value: $80M

Minnesota Housing Finance Agency Publicly Owned Housing Program (PHOP)

Amount: MPHA received $1.2M in 2015. Sites must remain publicly owned.

Model assumes $500K every other year.

Total estimated value: *$6M*

Minneapolis Affordable Housing Trust Fund (CDBG, HOME and City funds)

Amount: $25K per unit; City of Minneapolis issues the unified RFP annually, typically in July.

Model assumes $1.2M every other year.

Total estimated value: $13M

Federal Home Loan Bank - Affordable Housing Program (FHLB-AHP)

Amount: $500K

Model assumes $500K per project every other year.

Total estimated value $5M

Financing

Possible Financing Sources

Minneapolis Housing Tax Levy (Minnesota Statute)
Amount: Up to $8M a year for public housing needs. Minneapolis City Council must approve any such levy. The City has not agreed to approve a levy since 2009.
Total: $4M raise over 20 years, or $51M total.

MPHA's Developer Fee Reinvestment

Model assumes the cash developer fee from previous projects to be reinvested into new projects.

Total estimated value: $30M

MPHA Reserves

MPHA has about $23M in unrestricted reserves from public housing and central office program funds. Total unrestricted net assets in 2016 are approximately $23M- $27M.

Model assumes only $15M is needed over the next 20 years.

Glendale Townhomes

Glendale Townhomes

Background Information

AMP 1 includes 184 units (28 townhomes) constructed in 1952; the onsite community building was built in 1995.

- Existing units: 26 one-bedroom, 70 two-bedroom, 70 three bedroom, 18 four-bedroom.
- 12.5 acre site in the Prospect Park neighborhood southeast of Minneapolis.
- Capital needs identified total $15.5M in 2017 and $18.2M over 10 years, $23.3M over 20 years. None of the units meet ADA requirements.
- The development has a mix of families and seniors; approximately 29% of the existing population is over the age of 50.
- MPHA had a Phase I and II conducted in December 2014l; it is likely there will be additional costs due to soil conditions and building materials.
- MPHA expects significant costs related to the underground infrastructure of the site due to the age of the utilities and issues that have arisen in the last decade.

Glendale Townhomes

Capital Needs

- The 20-year capital needs, estimated for Glendale Townhomes (AMP 1), inlcude $28M ($84K per unit). This represents $15.5M in existing need, an additional $4M in 2018-2027 and an additional $8M in 2028-2037.
- The 2017 HUD total development cost (TDC) limit $50.8M for the 184 existing units.
- To qualify for obsolescence costs of rehab must exceed 57.14% of HUD TDC.
- Based on immediate needs, Glendale does not meet the HUD obsolescence threshold. The 20-year needs do meet HUD the threshold, so further review is warranted.
- Due to the extent of the rehab needed, the condition of the infrastructure and the potential of the site to include more affordable apartments, demolition and new construction is recommended.

Glendale Townhomes

Recommendations

Glendale Townhomes presents opportunities to redefine MPHA's role in the affordable housing industry, diversify MPHA's portfolio and collaborate with the community.

- Transform the Glendale Townhomes site as a mixed-income/mixed-use development that provides potentially a greater number of affordable apartments for both low-income and workforce housing.
- Connect the site to the neighborhood assets and partner with anchor institutions (University, Hospitals) to offer access to jobs and services.
- Explore avenues to include a "build-first model" and a community benefit agreement with the existing residents.
- Further review HUD's Section 18 and RAD programs to determine feasibility for development.

Glendale Townhomes

Redevelopment Strategy

- Demolition and new construction
- Replace 184 units with approximately 350 apartments.
- Approximately 67% affordable with 33% market rate.

Financial Assumptions

Phases of 9% Equity	5
Max 9% Allocation	$1.25M
Phases of 4% Equity	1
Infrastructure per Unit	$50,000
New Construction	$175,000
Construction Contingency	10%
Developer Fee	8%
Perm. Debt Interest Rate	5.5%
Perm. Debt Term	30 Years
Credit Price	$0.91
Operating Expenses	$7,357
Vacancy Rate	5%
Annual Replacement Reserve	$450

Glendale Scenario Comparison
Minneapolis Public Housing Authority

	Scenario 1 53% RAD, 47% LIHTC		Scenario 2 53% TPV, 47% LIHTC		Scenario 3 Market Rate, TPV, LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit
TPV	0		184		184	
RAD Units	184		0		0	
LIHTC Only	166		166		49	
Market Rate	0		0		117	
Total	**350**		**350**		**350**	
Development Budget	**Total Cost**	**Per Unit**	**Total Costs**	**Per Unit**	**Total Costs**	**Per Unit**
Land and Building Acquisition	-	-	-	-	-	-
Demolition Costs	700,000	3,804.35	700,000	3,804.35	700,000	3,804.35
Infrastructure Costs	17,500,000	50,000	17,500,000	50,000	17,500,000	50,000
Construction	69,825,000	199,500	69,825,000	199,500	69,825,000	199,500
Contingency	8,802,500	25,150	8,802,500	25,150	8,802,500	25,150
Fees	4,720,650	13,488	4,720,650	13,488	4,720,650	13,488
Legal	200,000	571	200,000	571	200,000	571
Construction Financing	3,057,637	8,736	3,057,980	8,737	3,179,694	9,085
Permanent Financing	148,644	425	245,505	701	469,042	1,340
Relocation	700,000	2,000	700,000	2,000	700,000	2,000
Other Soft Costs	1,097,164	3,135	1,100,080	3,143	1,110,437	3,173
Developer Fee	7,215,128	20,615	7,223,137	20,638	7,251,586	20,719
Reserves	2,388,713	6,825	2,721,938	7,777	3,490,966	9,974
Total	**116,355,436**	**332,444**	**116,796,790**	**333,705**	**117,949,876**	**337,000**
Permanent Financing	**Total Cost**	**Per Unit**	**Total Costs**	**Per Unit**	**Total Costs**	**Per Unit**
LIHTC Equity (9%)	56,869,313	162,484	56,869,313	162,484	56,869,313	162,484
LIHTC Equity (4%)	21,873,908	62,497	21,878,098		7,578,658	21,653
Perm. Debt	9,864,447	28,184	19,550,468	55,858	41,904,191	119,726
MPHA Capital Fund (Funding Gap)	24,462,737	69,894	15,211,877	43,463	8,303,568	23,724
MPHA Seller Note	-	-	-	-	-	-
FHLB	1,500,000	4,286	1,500,000	4,286	1,500,000	4,286
Deferred Developer Fee	1,785,032	5,100	1,787,034	5,106	1,794,146	5,126
Total	**116,355,436**	**332,444**	**116,796,790**	**333,705**	**117,949,876**	**337,000**
Net Benefit	**Total Cost**	**Per Unit**	**Total Costs**	**Per Unit**	**Total Costs**	**Per Unit**
Funding Need	**24,462,737**	**69,894**	**15,211,877**	**43,463**	**8,303,568**	**23,724**
Less Cash Developer Fee	3,570,064	10,200	3,574,069	10,212	3,588,293	10,252
PV	-2,449,951	-7,000	-2,162,875	-6,180	-4,917,058	-14,049
Net Funding Gap	**25,582,849**	**73,094**	**16,623,071**	**47,494**	**6,974,803**	**19,928**
Net Funding Gap / Hard Costs	**0.37**		**0.24**		**0.10**	
Debt to Equity	**0.13**		**0.25**		**0.65**	
Operations						
Income (Year 1)	3,637,017	10,391	4,279,420	12,227	6,048,185	17,281
Less Expenses (Year 1)	(2,574,966)	(7,357)	(2,574,966)	(7,357)	(2,574,966)	(7,357)
Less Reserves	(157,500)	(450)	(157,500)	(450)	(157,500)	(450)
Less Debt Service Payment	(678,727)	(1,939)	(1,345,178)	(3,843)	(2,883,234)	(8,238)
Less GP Management Fee	(10,300)	(29)	(10,300)	(29)	(10,300)	(29)
Less LP AM Fee	(10,300)	(29)	(10,300)	(29)	(10,300)	(29)
Net Operating Income	205,224	586	181,177	518	411,885	1,177

Financial Assumptions	
Phases of 9% Equity	5
Max 9% Allocation	$1.25M
Phases of 4% Equity	1
Infrastructure per Unit	$50,000
New Construction	$175,000
Construction Contingency	10%
Developer Fee	8%
Perm. Debt Interest Rate	5.5%
Perm. Debt Term	30 Years
Credit Price	$0.91
Operating Expenses	$7,357
Vacancy Rate	5%
Annual Replacement Reserve	$450

Mixed-Finance Demolition-Disposition New Construction Mixed-Income

Glendale Townhomes

Opportunities

Overall

- Increasing the number of apartments provides greater financial feasibility and allows MPHA to develop additional affordable apartments.
- Diversifies MPHA's portfolio in order to create new streams of revenue allowing MPHA to preserve more affordable units, which counteracts decreasing federal funding.
- Increase resident amenities.

Challenges

Funding source: 9% LIHTC

- Minnesota's annual allocation of 9% tax credits is both limited and highly competitive.
- MPHA must apply to the Minneapolis Housing Finance Board (MHFB), as sub-allocator, in Round 1.
- In 2017, MHFB had $1.23M to allocate.
- The maximum allocation per project is $1.2M.
- Obtaining HUD approval for Tenant Protection Vouchers (TPVs).

Scattered Sites

Introduction

This section in CSG's analysis includes MPHA's Scattered Site public housing units, AMP 2, totaling approximately 746 units and assumes the following:

- Rental Assistance Demonstration (RAD) conversion
- Establishing a rehab construction line of credit

Rehab construction line of credit potential approaches:

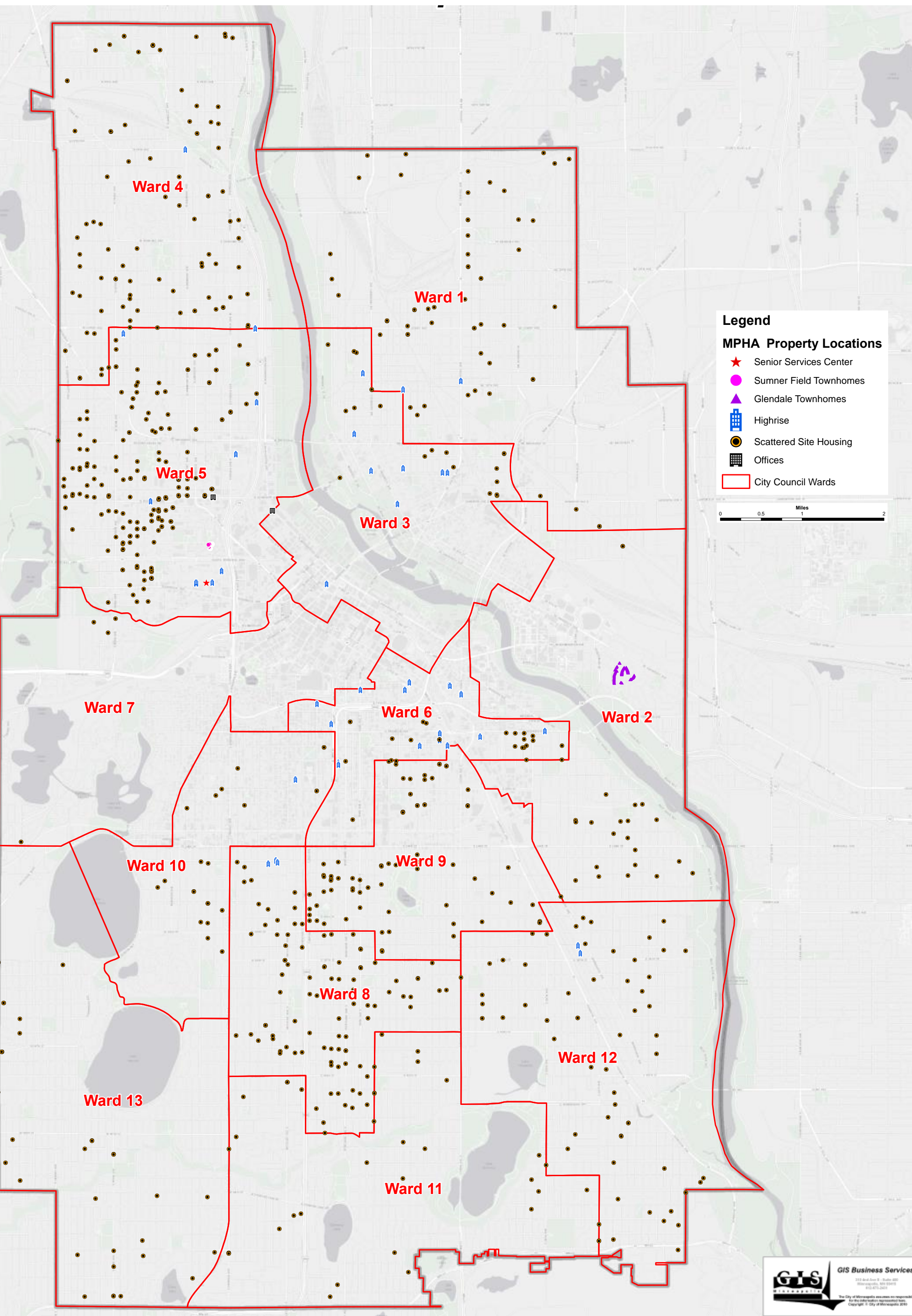
1. **MPHA Reserves.** MPHA has approximately $23M in unrestricted reserves from public housing and central office program funds.
2. **Minnesota Local Banks and Foundations Affordable Housing Pool.** Minnesota Impact Investment for Affordable Housing fund and Greater Minnesota Housing Fund could be potential source or serve as program models.
3. **Combination of MPHA Reserves and Affordable Housing Pool**

Scattered Sites

Recommendations

Scattered Sites

- Convert units from public housing to vouchers through HUD programs: Section 18 Disposition, Voluntary Conversion and/or RAD.
- Establish a local revolving loan fund for capital improvements.
- Use MPHA reserve funds and raise local foundations and bank funds by marketing the unique characteristics of the scattered sites (stabilizing integrated workforce housing in opportunity areas).
- Streamline operating expenses, to increase the Net Operating Income (NOI), will allow MPHA to access conventional financing.
- Incorporate green construction into rehab scope of work to reduce energy usage that will result in significant long-term savings and garner support from the City toward their Climate Action Plan.



Introduction

Redevelopment Considerations

- The 20-year capital needs identified for the 746 scattered site units is $79.4M, approximately $106K per unit. A 10-year program to address capital needs will require relocation and rehab on approximately 75 units per year.
- Rehabbing the scattered sites is more inefficient financially and geographically, since the units are spread out across the City.
- If MPHA determined they wanted to use their reserve funding, the timing of converting to RAD and designating the reserve funds will be critical to avoid HUD recapture.
- To establish an Affordable Housing Pool program, significant coordination by MPHA will be required and a community Development Financial Institution (CDFI) will need to be appointed to manage the funds.

Scattered Sites

Operations - Expenses

The Scattered Sites had the highest per unit cost at $9,092, with high personnel and maintenance costs, compared to Glendale Townhomes and the High Rise properties. Generally the Scattered Site units are larger, but some of the maintenance items are handled by the tenants, as required in the terms of their lease.

Based on CSG's operational analysis, CSG found the following:

- Most properties are staffed at similar levels based on units and proportion of maintenance and administrative staff, with the exception of AMP 2.
- MPHA properties average 35 units per staff member, while AMP 2 has 25 units per staff member. On average, 68% of staff located at the property focus on maintenance, while AMP 2 staff has 71% maintenance.
- The optimal location of staff can help reduce travel costs, reduce wait times for residents to have maintenance requests addressed, and increase the amount of time spent on preventive maintenance. This is especially pronounced for engineers who handle more complex maintenance and whose time is in demand.

Please reference the CSG Consolidated Operational Analysis dated October 11, 2017 for additional information.

Scattered Sites

Operations - Revenue

- Tenant Rent has grown historically approximately 3% year over year.
- The Scattered Sites have the highest co-efficient because of the larger bedroom sizes.
- The Scattered Sites have the highest incomes, highest rent and also highest subsidy.
- MPHA has lost $7.48 million in subsidy due to proration since 2014.
- Other key drivers for revenue are occupancy and vacancy.

Please reference the CSG Consolidated Operational Analysis dated October 11, 2017 for additional information.

Scattered Sites

Items for Consideration

- Research existing revolving loan funds, program guidelines, and other materials.
- Discuss design of program with local foundations and lenders.
- Set the eligibility requirements.
- Determine allowed/prohibited uses of funds.
- Set a minimum and maximum amount for the loans.
- Determine the length of the loan term, which may vary based on the use of the loan. For example, the term for a loan to purchase equipment may be based on the life of the product while a loan for real estate may have a 15-year term.
- Decide if the interest rate will be variable or fixed and whether the rate will vary based on the project.
- Develop loan checklist/budget materials.
- Determine the administrative duties and staffing needs associated with the program.
- Provide program framework to potential funders.

Potential Affordable Housing Pool Sources

Impact Investment Collaborative for Affordable Housing

- $17.1M committed to the impact investing collaborative, and the commitment is expected to exceed $20M. It is invested in a fixed income bond fund focused on affordable housing and small business lending throughout Minnesota.
- Leading the way for others to invest are the three lead anchor investors: The McKnight Foundation, the Bush Foundation and Otto Bremer Trust.

Greater Minnesota Housing Fund - NOAH Impact Fund

- The NOAH Impact Fund investors include Bremer Bank, Sunrise Bank, Western Bank, Minnesota Housing Finance Agency, Hennepin County, the McKnight Foundation and Otto Bremer Trust.
- Freddie Mac is providing up to $100M in debt that can be used for first mortgages, complementing the equity financing being made available via the NOAH Impact Fund.
- Hennepin County contributed $3M.

Opportunities

B

RAD Conversion
Self-Developed
Rehab

Scattered Sites

Set up Affordable Housing Pool

- Market to Local Foundations and Banks.
  - Establish a revolving line of credit with a low-interest rate for repairs.
  - Promote upward mobility of scattered site residents (working residents and sites located in opportunity areas).
  - Further establish partnerships with organizations that focus on resident self sufficiency.

Additional Funding to Address Capital Needs

- Streamlining operating expenses, increases Net Operating Income (NOI), will allow MPHA to access conventional financing.
- Reducing energy usage will result in significant long-term savings and garner support from the City toward their Climate Action Plan.

RAD Conversion

- Converting the units from the public housing platform to RAD, removes HUD restrictions and allows access to private capital.
- Long-term affordability, stable subsidy and site specific reserves.

Reserves

- MPHA has over $23M to use as seed capital.

RAD Conversion Self-Developed Rehab

Scattered Sites

Challenges

High Capital Needs

- 20-year capital needs of roughly $79.4M ($106K per unit).
- 10-year program to address these needs would require relocation/rehab of about 75 units/year.

Geography

- Units are are spread out across the City, non-contiguous.

Reserve Obligation

- Obligating the reserve funds will be critical to avoid HUD recapture.
- Timing of converting to RAD and starting repair program to fully obligate funds.

Programmatic Implementation

- Significant coordination by MPHA will be required to establish and manage an Affordable Housing Pool.
- Set up of a Community Development Financial Institution (CDFI).

High Rise Sites

Introduction

This section of CSG's portfolio analysis includes MPHA's high rise public housing units, AMPs 3 through 7, totaling approximately 5,006 units and assumes the following:

- Rental Assistance Demonstration (RAD) conversion of all units.
- Leveraging acquisition/rehabilitation with bonds/4% LIHTC.

CSG developed the following scenarios for AMPs 3 through 7:

- **Baseline:** MPHA's portfolio as-is, including 100% of 20-year PNA and 100% operating expenses (requires approximately $400M in volume cap).
- **CSG Recommended**: 75% of 20-year PNA and 85% of operating expenses (requires approximately $340M in volume cap).
- **CSG Recommended/Green Construction**: 85% of 20-year PNA and 80% of operating expenses (requires approximately $370M in volume cap).

Introduction

Background

- MPHA's focus on core services can help reduce expenses and increase supportable debt for future rehabilitation and portfolio transition.
- Removing Protective Services and Tenant Services costs can help increase supportable debt, with AMPs 3, 6, and 7 standing to benefit the most.
- When removing these costs, it is expected, they will be funded through additional funds or partnering organizations that can support MPHA's core mission of providing high quality housing for residents.
- Protective Services and Tenant Services are services that are valued by residents, administrators, and housing advocates. Therefore any change in funding or service will have to be done carefully and with transparency to maintain the current service level and to gain trust with residents and housing advocates.

Please reference the CSG Consolidated Operational Analysis dated October 11, 2017 for additional information.

High Rise Sites

Recommendations

- Convert units from public housing to vouchers through HUD programs: Section 18 Disposition, Voluntary Conversion and/or RAD.
- Confirm MPHA's desired approach and program for the first group of sites.
- Request that the City of Minneapolis set aside volume bond cap for senior public housing preservation projects.
- Determine timing for projects to competitively pursue additional financing sources to stabilize housing for the vulnerable aging population.
- Streamline operating expenses, increases Net Operating Income (NOI), allowing MPHA to access conventional financing.
- Reduce energy usage that will result in significant long-term savings and garner support from the City toward their Climate Action Plan.

Financial Assumptions

Scenarios

- **Baseline:** 100% of 20 Year PNA & 100% Operating Expense.
- **CSG Recommended:** 75% of 20 Year PNA & 85% of Operating Expense also incorporates TPV for projects that qualify for HUD Obsolescence.
- **CSG Recommended & Deep Green:** 85% of 20 Year PNA & 80% of Operating Expense also incorporates TPV for projects that qualify for HUD Obsolescence.

Methodology

- **Hard Cost** includes 14% for General Conditions, Overhead and Profit.
- **Construction Contingency** is estimated at 15%.
- **Demolition Costs** if necessary, are handled outside of the development budget.
- **Relocation** is estimated at $2,000 per unit.
- **Building Acquisition** is estimated at the greater of $20K per unit or net operating income (NOI) capitalized at 7% to generate LIHTC equity.
- **Soft costs** are based on estimates from other similar transactions.

Financial Assumptions

Income and Operating Expenses

- **RAD Rents** were inflated to 2017 levels and range from $517 for a one-bedroom to $1,802 for a four-bedroom unit.
- **Total Operating Expenses** at 100% is approximately $6,632 per month, which includes $400 per unit per year for replacement reserve deposit.
- **Reserves** include 8 months of operating expenses, replacement reserves and debt service.

Financing

- **Tax Credit Pricing** estimated at $0.92
- Assumes self-development and 50% of MPHA's developer fee is deferred to reduce funding gap.

Debt

- **Construction Period** rate 4.5% over 30-months.
- **Permanent Period** includes 5.5% rate over 30-year amortization and 15-year term. The debt coverage ratio is 1.15x Yr 1 and 1.10x in Yr 15.

Approach Considerations

Prioritizing Sites with Lowest Needs

- Allows MPHA to stabilize a greater number of high rise units in its 10-year implementation period.
- Scope of rehab work would likely be very similar to MPHA's current modernization projects, allowing MPHA to ramp up capacity.
- Generates greater developer fee and is more equity efficient due to the efficiencies of doing more units per year.
- Requires less private activity tax-exempt bond volume cap so MPHA can gradually enter the Affordable Housing Developer pool.

Prioritizing Sites with Highest Needs

- Stabilizes sites that have the greatest needs.

Alternating Lowest and Highest Need Sites

- Allows MPHA to evaluate the financial factors for each project to program funding based on the availability of key financing sources: private activity tax-exempt bond volume cap and MPHA gap funding, as well as additional financing sources: private and public federal, state, and local).
- Allows MPHA to use site rankings in the context of other factors, including redeveloping sites where public and private investments are being made or planned for in the future.

Portfolio Rankings

Baseline (as-is) Lowest Need

Lowest Capital Needs								
Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	7	The Pentagon	129	$110,704	$50,870	$46,229	52%	$8,209
2	3	Thomas T Feeney Manor	48	$111,924	$51,957	$47,281	65%	-$8,261
3	5	Third Avenue Towers	199	$137,834	$67,042	$60,964	61%	-$11,267
4	7	The Riverside	151	$139,310	$61,084	$54,911	61%	$8,172
5	3	Hamilton Manor	220	$141,206	$69,152	$62,908	60%	-$24,253
6	4	Parker Skyview	333	$142,819	$79,294	$72,926	48%	-$1,892
7	3	Lowry Towers	193	$149,536	$74,146	$67,455	60%	-$16,580
8	4	Spring Manor	189	$154,280	$82,457	$75,487	47%	$7,546
9	4	St. Anthony Highrise	49	$156,370	$80,557	$73,509	48%	$4,811
10	3	The Atrium /Archie Givens	299	$158,529	$90,182	$83,010	47%	-$8,034
11	3	Lyndale Manor	239	$163,381	$93,489	$86,056	47%	-$9,678
12	4	Friendly Manor (1206 2nd St.)	57	$163,978	$88,426	$80,958	47%	$7,529
13	5	Fifth Avenue Highrise	254	$165,660	$83,658	$76,089	59%	-$1,264
14	3	Heritage Commons	102	$166,314	$95,548	$87,958	47%	-$8,261
15	4	Holland Highrise	182	$167,099	$79,739	$72,081	59%	$7,546
16	6	Cedar High 630 Cedar Ave S	191	$167,990	$77,871	$70,166	59%	$7,246
17	7	Charles Horn Towers	491	$169,684	$79,171	$71,371	58%	$8,155

Portfolio Rankings

Baseline (as-is) Highest Need

Highest Capital Needs

Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	5	Hiawatha Towers Apartments	281	$170,854	$86,758	$78,911	58%	-$1,290
2	5	Franklin Towers	110	$171,192	$87,063	$79,198	59%	-$1,223
3	6	Park Center	182	$182,134	$105,966	$97,486	46%	$5,418
4	6	Cedar High Apartments	348	$182,311	$86,316	$77,844	58%	$7,241
5	3	Oliver Manor	31	$185,259	$96,041	$87,437	59%	-$8,261
6	7	James R. Heltzer Manor	110	$188,793	$90,670	$81,846	58%	$8,253
7	5	Signe Burckhardt	42	$190,001	$98,605	$89,732	58%	-$2,703
8	6	Elliot Twins Apartments	174	$191,253	$112,158	$103,189	45%	$2,148
9	3	Lynway Manor	62	$194,676	$114,873	$105,764	46%	-$10,118
10	7	37th Street Manor	28	$200,465	$114,082	$104,628	46%	$6,206
11	3	Art Love Manor	66	$202,225	$105,848	$96,335	57%	-$8,261
12	7	Snelling Manor	28	$203,938	$115,088	$105,452	46%	$7,952
13	4	Sibley Triangle Apartments	35	$214,710	$121,622	$111,420	45%	$4,854
14	4	Dickman Park Apartments	35	$228,388	$130,882	$119,947	45%	$4,854
15	4	Friendly Manor (1900 3rd St.)	32	$234,301	$137,355	$126,097	45%	$3,063
16	3	Rainbow Terrace	84	$235,871	$125,912	$114,597	56%	-$14,659
17	4	Friendly Manor (809 Spring St.)	32	$250,894	$148,622	$136,475	44%	$3,063

Portfolio Rankings

CSG Rec (Op Ex/Cap reduction) Lowest Need

Lowest Capital Needs								
Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	3	Thomas T Feeney Manor	48	$91,927	$36,419	$32,786	69%	$11,173
2	7	The Pentagon	129	$102,032	$18,280	$14,673	63%	$23,985
3	5	Third Avenue Towers	199	$110,017	$50,143	$45,519	64%	$7,038
4	3	Hamilton Manor	220	$112,576	$51,755	$47,007	63%	-$4,819
5	4	Parker Skyview	333	$115,110	$51,587	$46,740	51%	$6,328
6	3	Lowry Towers	193	$118,803	$55,489	$50,407	63%	$2,854
7	7	The Riverside	151	$123,396	$25,774	$21,022	69%	$23,948
8	3	The Atrium /Archie Givens	299	$125,809	$64,164	$58,716	49%	$11,399
9	3	Lyndale Manor	239	$129,387	$68,250	$62,606	49%	$9,755
10	5	Fifth Avenue Highrise	254	$131,835	$53,113	$47,372	61%	$17,041
11	3	Heritage Commons	102	$132,049	$68,776	$62,993	49%	$11,173
12	5	Hiawatha Towers Apartments	281	$135,911	$55,619	$49,660	61%	$17,016
13	5	Franklin Towers	110	$136,613	$56,076	$50,084	61%	$17,082
14	4	Spring Manor	189	$139,236	$40,726	$35,361	56%	$5,747
15	6	Cedar High 630 Cedar Ave S	191	$141,008	$38,454	$32,586	64%	$5,498
16	6	Park Center	182	$144,398	$64,818	$58,392	48%	$5,870
17	4	St. Anthony Highrise	49	$185,230	$1,583	-$4,047	75%	$11,837

Portfolio Rankings

CSG Rec (Op Ex/Cap reduction) Highest Need

Highest Capital Needs								
Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	7	Charles Horn Towers	491	$145,896	$39,226	$23,931	65%	$23,931
2	4	Friendly Manor (1206 2nd St.)	57	$147,085	$45,337	$5,731	56%	$5,731
3	3	Oliver Manor	31	$147,150	$69,687	$11,173	61%	$11,173
4	4	Holland Highrise	182	$148,944	$38,495	$5,747	67%	$5,747
5	5	Signe Burckhardt	42	$149,964	$66,198	$15,602	60%	$15,602
6	6	Elliot Twins Apartments	174	$150,550	$72,748	$18,179	47%	$18,179
7	6	Cedar High Apartments	348	$152,118	$44,949	$5,494	63%	$5,494
8	3	Lynway Manor	62	$153,571	$85,292	$9,316	48%	$9,316
9	3	Art Love Manor	66	$159,336	$76,637	$11,173	60%	$11,173
10	7	James R. Heltzer Manor	110	$160,609	$48,063	$24,030	64%	$24,030
11	7	37th Street Manor	28	$168,503	$67,503	$21,982	51%	$21,982
12	7	Snelling Manor	28	$172,772	$67,270	$23,729	51%	$23,729
13	4	Sibley Triangle Apartments	35	$185,240	$70,182	$3,055	52%	$3,055
14	4	Dickman Park Apartments	35	$195,710	$77,291	$3,055	51%	$3,055
15	3	Rainbow Terrace	84	$211,106	$55,010	$44,103	65%	$44,103
16	4	Friendly Manor (1900 3rd St.)	32	$243,608	$42,969	$25,850	61%	$25,850
17	4	Friendly Manor (809 Spring St.)	32	$255,841	$51,234	$25,850	60%	$25,850

Portfolio Rankings

Green/CSG Rec (Op Ex/Cap red) Lowest Need

Lowest Capital Needs

Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% of Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	3	Thomas T Feeney Manor	48	$99,851	$15,426	$11,371	67%	$14,322
2	7	The Pentagon	129	$112,379	$8,392	$4,345	61%	$26,704
3	5	Third Avenue Towers	199	$120,936	$21,866	$16,660	62%	$9,853
4	3	Hamilton Manor	220	$123,650	$22,837	$17,490	62%	-$1,670
5	4	Parker Skyview	333	$129,097	$23,607	$18,135	51%	$6,045
6	3	Lowry Towers	193	$130,751	$25,345	$19,618	61%	$6,003
7	7	The Riverside	151	$136,630	$15,725	$10,373	68%	$1,619
8	3	The Atrium /Archie Givens	299	$138,809	$30,074	$23,932	48%	$14,549
9	3	Lyndale Manor	239	$142,911	$31,406	$25,040	48%	$12,905
10	3	Heritage Commons	102	$145,729	$33,015	$26,502	48%	$14,322
11	5	Fifth Avenue Highrise	254	$147,885	$28,898	$22,417	61%	$19,856
12	5	Hiawatha Towers Apartments	281	$152,548	$30,338	$23,607	61%	$19,831
13	5	Franklin Towers	110	$153,092	$30,400	$23,640	61%	$19,897
14	4	Spring Manor	189	$154,404	$19,472	$13,425	55%	$5,464
15	4	St. Anthony Highrise	49	$156,620	$20,685	$14,553	56%	$2,729
16	6	Cedar High 630 Cedar Ave S	191	$157,190	$25,762	$19,137	63%	$5,178
17	6	Park Center	182	$161,917	$36,211	$28,956	48%	$5,550

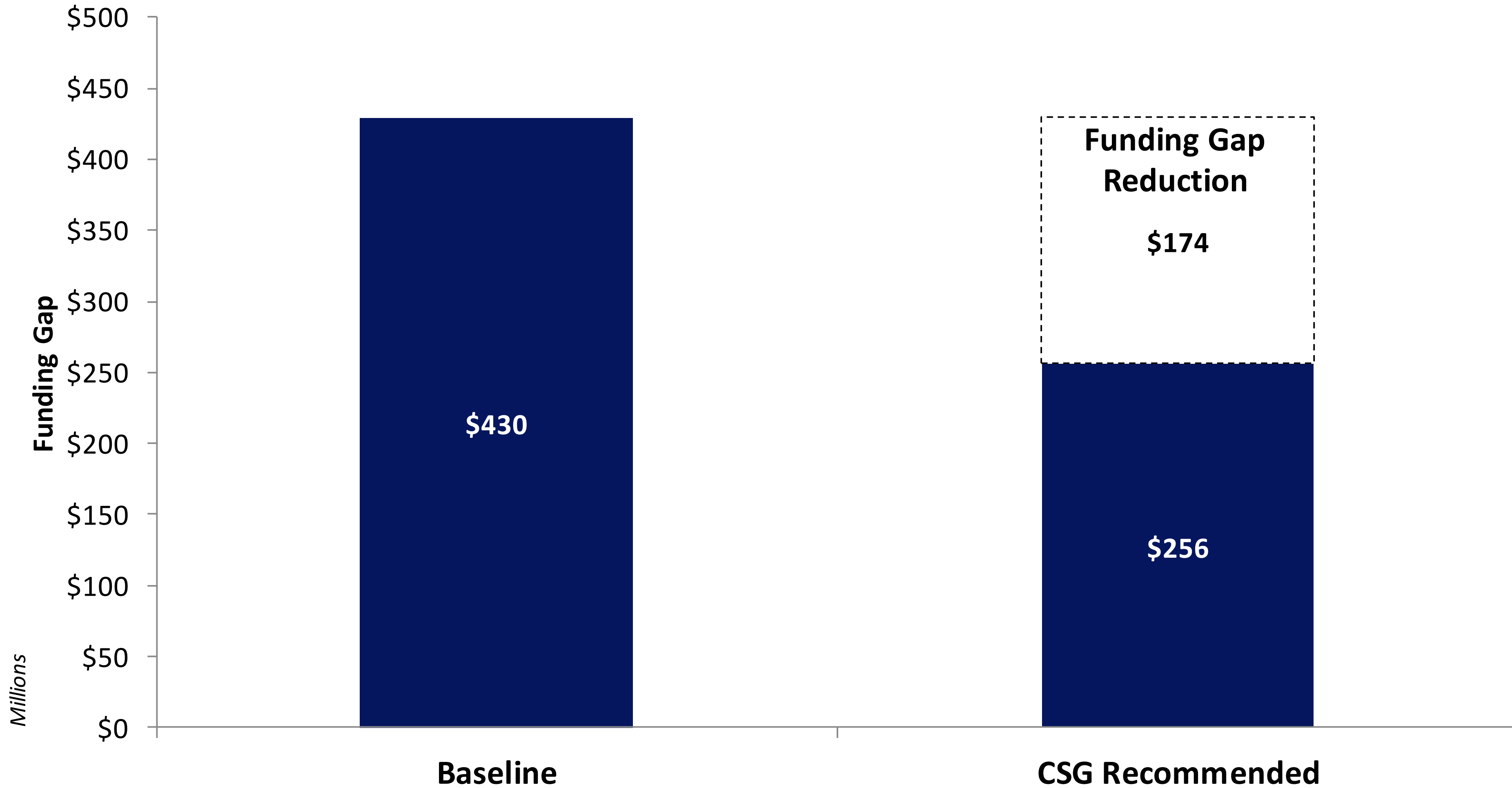
Portfolio Rankings

Green/CSG Rec (Op Ex/Cap red) Highest Need

Highest Capital Needs

Rank	AMP	Name	Units	Total Development Costs	Total Gap	Per Unit Net Gap (after 50% of Dev Fee investment)	LIHTC Equity as % of Hard Cost	Amount of Cash Flow over 15-Years
1	7	Charles Horn Towers	491	$162,303	$24,906	$18,178	64%	$26,649
2	3	Oliver Manor	31	$162,848	$36,857	$29,427	60%	$14,322
3	4	Friendly Manor (1206 2nd St.)	57	$163,093	$22,044	$15,554	55%	$5,447
4	4	Holland Highrise	182	$165,331	$21,469	$14,836	66%	$5,464
5	6	Elliot Twins Apartments	174	$166,969	$40,440	$32,777	47%	$21,117
6	5	Signe Burckhardt	42	$167,372	$37,502	$29,910	60%	$18,417
7	6	Cedar High Apartments	348	$169,683	$30,428	$23,139	62%	$5,174
8	3	Lynway Manor	62	$170,123	$42,311	$34,486	47%	$12,465
9	3	Art Love Manor	66	$176,576	$41,762	$33,596	59%	$14,322
10	7	James R. Heltzer Manor	110	$178,719	$30,921	$23,320	63%	$26,748
11	7	37th Street Manor	28	$187,825	$38,500	$30,315	50%	$24,701
12	7	Snelling Manor	28	$192,332	$37,462	$29,120	51%	$26,447
13	3	Rainbow Terrace	84	$204,475	$51,413	$41,737	57%	$7,924
14	4	Sibley Triangle Apartments	35	$205,876	$39,259	$30,450	51%	$2,772
15	4	Dickman Park Apartments	35	$217,629	$44,040	$34,601	50%	$2,772
16	4	Friendly Manor (1900 3rd St.)	32	$222,673	$44,466	$34,750	50%	-$14,462
17	4	Friendly Manor (809 Spring St.)	32	$236,850	$50,877	$40,402	49%	-$14,462

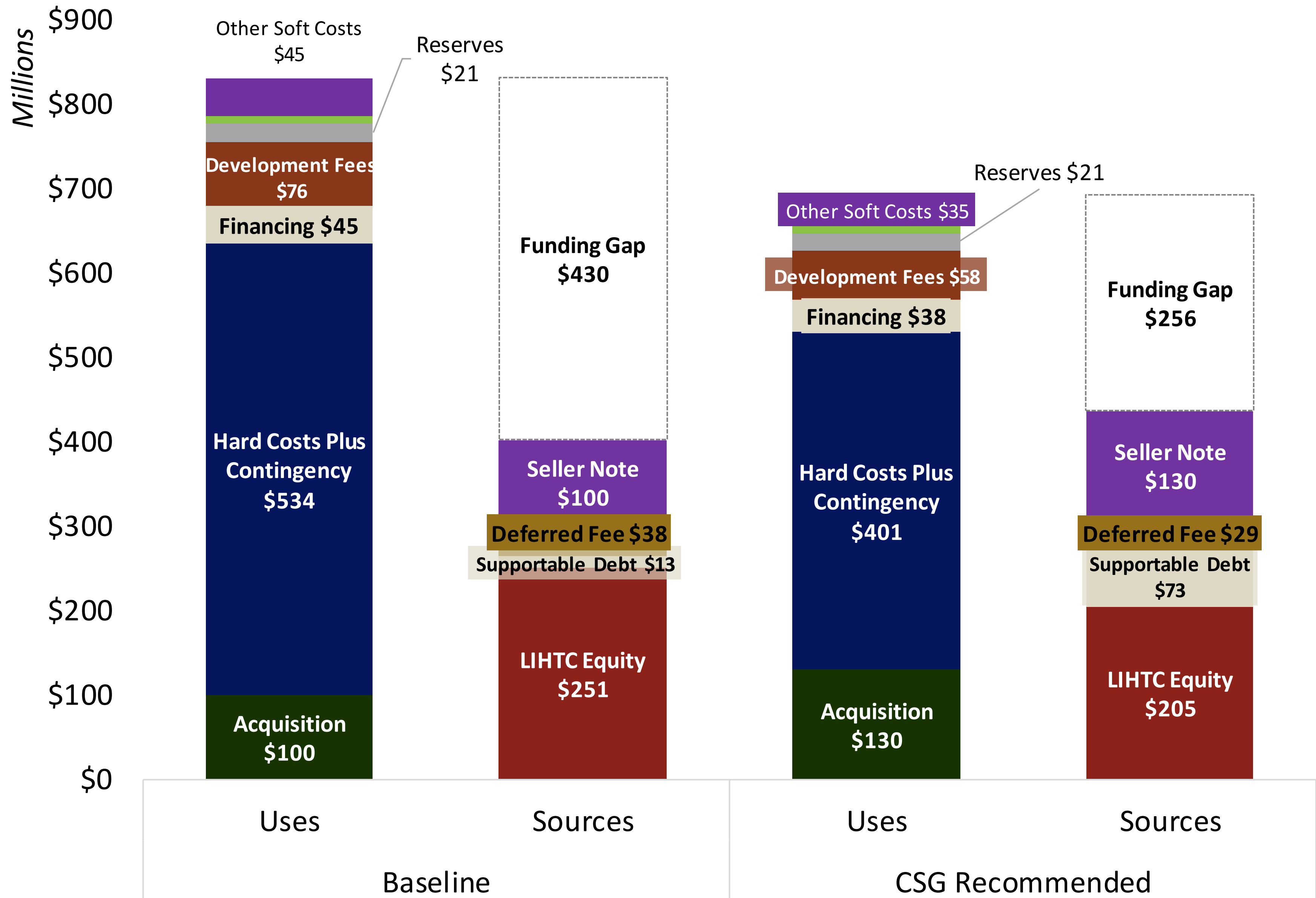
Financial Scenarios Summary



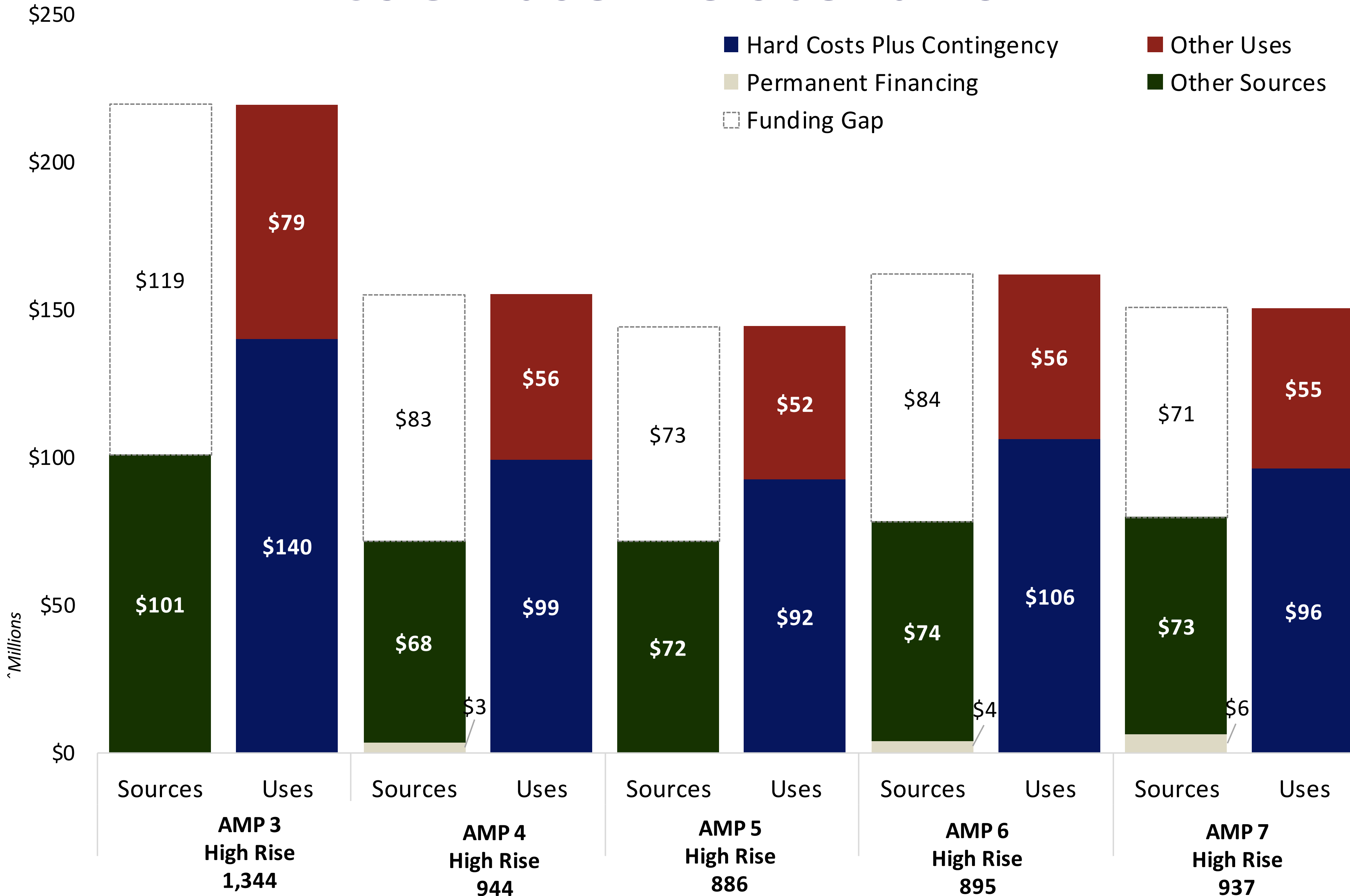
CSG's Analysis for MPHA's 5,006 High Rise, included in AMPs 3-7:

- Baseline (no changes) represents an estimated funding gap of $430M.
- Potential Cost Savings (15% reduction in OpEx and 25% reduction Cap needs) represents an estimated funding gap of $256M, the reduction in gap is $174M.

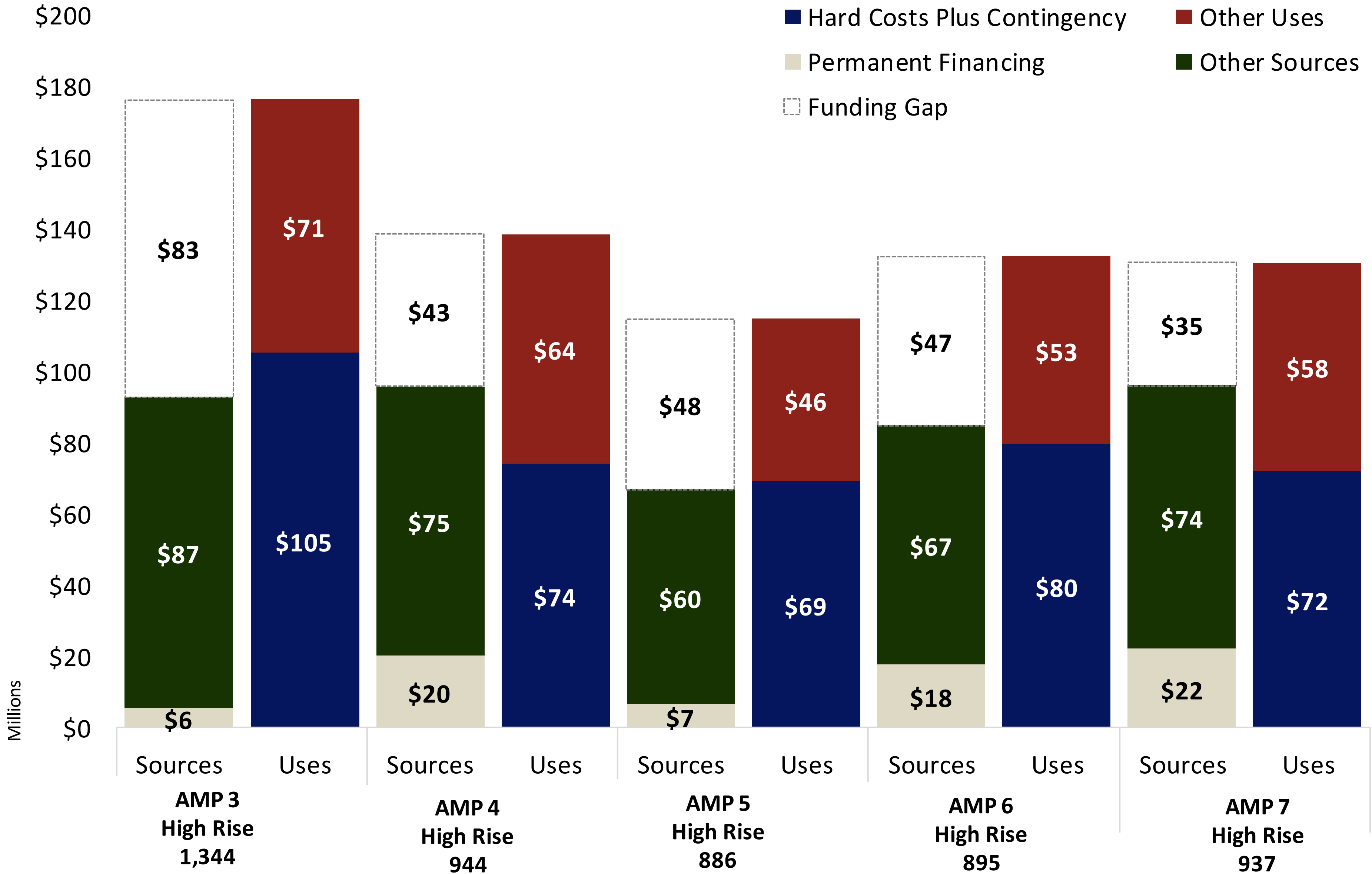
Uses and Sources Comparison



CSG Baseline Scenario



CSG Recommended Scenario



Opportunities

C

RAD Conversion Self-Developed Acquisition/Rehab

High Rise Properties

Access to Additional Funding to Address Capital Needs

- Streamlining operating expenses, increases Net Operating Income (NOI), allowing MPHA to access conventional financing.
- Reducing energy usage will result in significant long-term savings and garner support from the City toward their Climate Action Plan.

RAD Conversion

- Converting the units from the public housing platform to RAD, removes HUD restrictions and allows access to private capital.
- Long-term affordability, stable subsidy and site specific reserves.

Project Prioritization

- CSG has worked with MPHA to develop criteria for prioritizing the High Rise sites.
- Key Performance Indicators, developed with Ameresco, will further assist MPHA in making strategic decisions about its developments.

Economic Stimulus

- MPHA's construction activity will create jobs and stimulate economic impact in the surrounding area, providing both a direct and indirect impact to the local economy.

Challenges

C

RAD Conversion Self-Developed Acquisition/Rehab

High Rise Properties

Changing MPHA's Role

- Revise charter to allow MPHA to own, develop and manage non-public housing apartments.
- Preserve affordable apartments by accessing essential financing tools, which require MPHA to own, develop and manage various types of apartments.
- Garner buy-in from local community and residents as MPHA defines its new role.

Funding source: State Volume Cap/Tax Levy Bonds

- In 2017, MHFA's Housing Pool included $182.6M and the City Entitlement Allocation was $49.6M.
- Minnesota's annual allocation of bond cap is both limited and highly competitive.
- The City would need to pass a tax levy for MPHA to access City general obligation bonds outside of the State Volume Cap.

Limited Gap Funding Sources

- Utilizing core financing tools, MPHA's rehab projects reflect a $240M gap.
- Projects will need to be strategically phased, based on access to key funding sources and MPHA staff capacity.

Background

Background

The following sections provide background and reference information for the Portfolio Strategy.

The Background sections include:

MPHA's Portfolio

Capital Needs

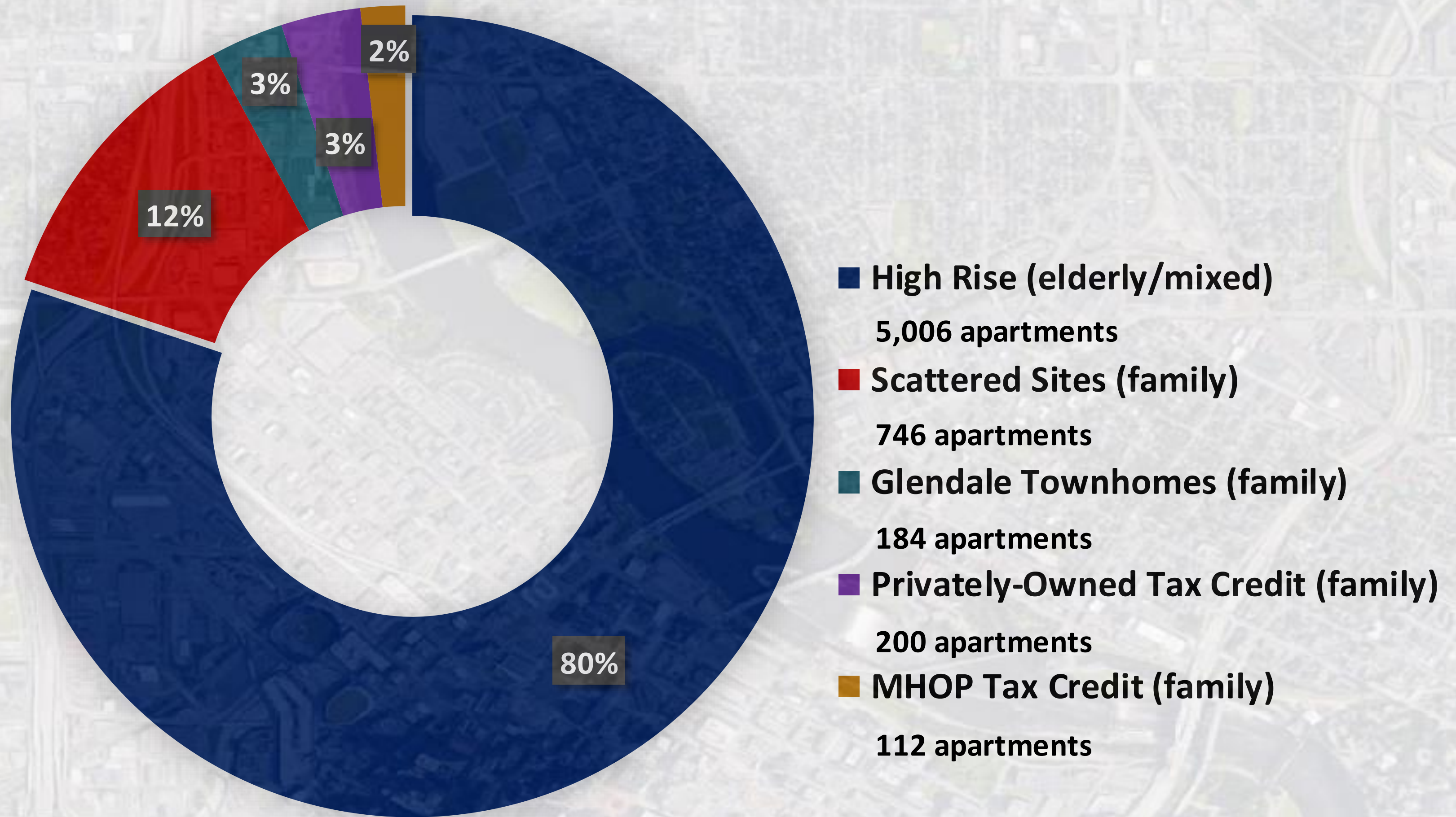
Economic Impact of Redevelopment Activities

Reducing Expenses and Increasing Revenue

Impact of Reducing Utility Expenses

Adjusted Income and Expenses

MPHA Portfolio



- **80%**, the majority of MPHA's portfolio, is composed of elderly and mixed-population high rise properties.
- **12%** of MPHA's portfolio, includes scattered sites apartments for families.
- **8%**, the remainder of the portfolio, includes family apartments at Glendale Townhomes and other affordable sites.

MPHA Portfolio

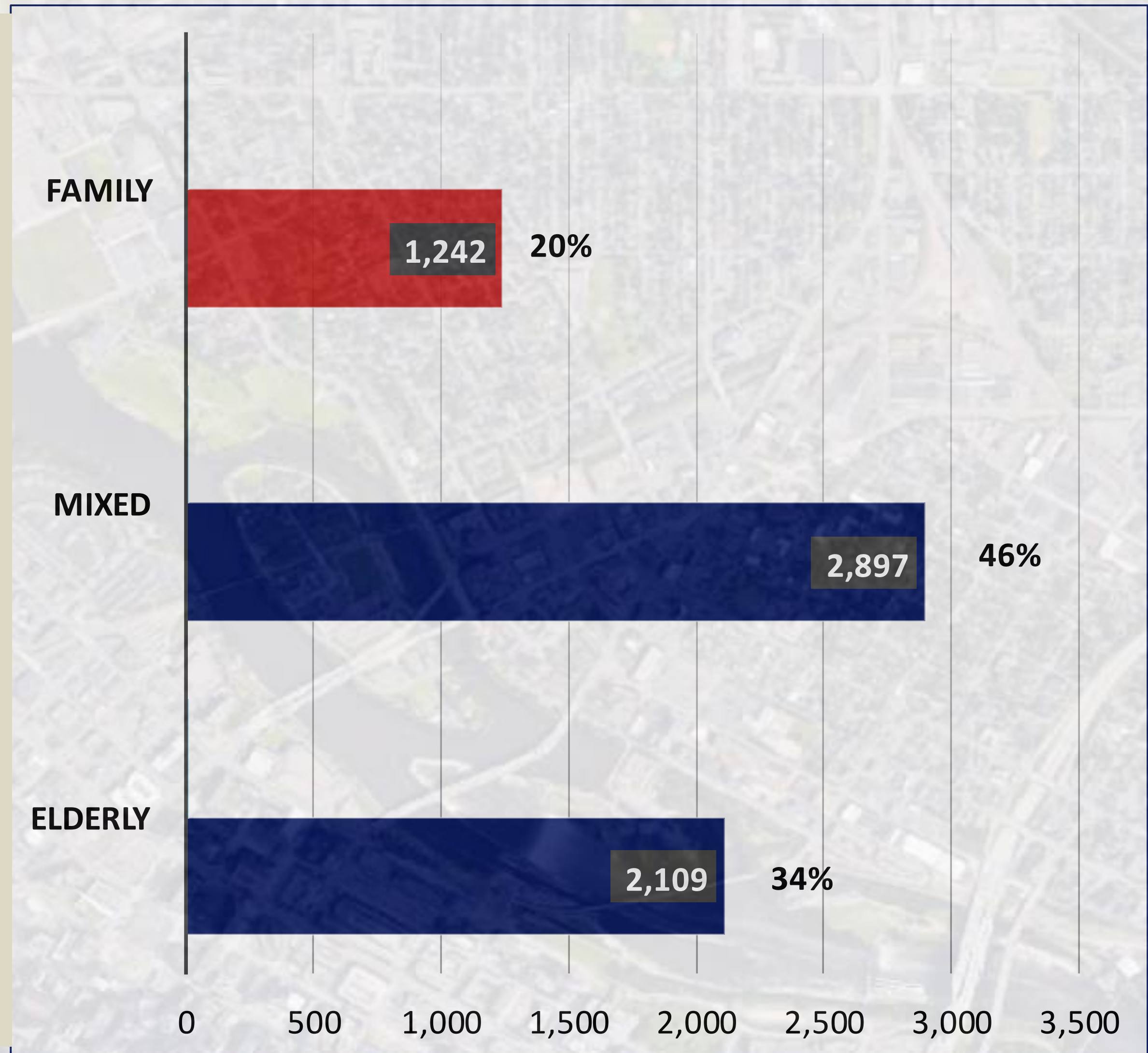
MPHA's public housing portfolio is comprised of 6,248 apartments, including:

Family. 1,242 total units, including:

- 746 scattered sites
- 184 townhomes
- 312 tax credit apartments

High Rise. 5,006 total units, including:

- 2,109 senior units
- 2,987 units for mixed-populations



Ward 4
Ward 1
Ward 5
Ward 3
Ward 6
Ward 7
Ward 2
Ward 10
Ward 9
Ward 8
Ward 12
Ward 13
Ward 11

Legend
MPHA Property Locations
Senior Services Center
Sumner Field Townhomes
Glendale Townhomes
Highrise
Scattered Site Housing
Offices
City Council Wards

High Rise concentration

Scattered site concentration

MPHA Portfolio

MPHA's 6,248 units are located in 13 wards across the City.

- Wards 3, 5 and 6 include 79% of the high rise properties.
- Wards 4, 5 and 8 have the highest concentration of scattered sites.
- Ward 5 has the highest number of scattered sites.
- Ward 10 scattered sites have the highest values (per MPHA).
- Wards 2, 3 and 7 have fewer units.
- 298 units are located outside of Minneapolis.

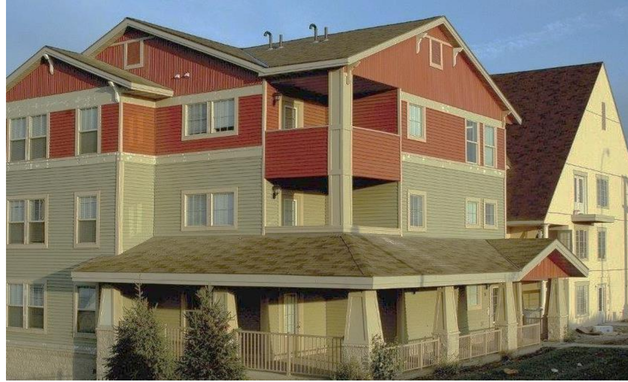
Heritage Park

Background: The 440 apartments (200 public housing) that make up Heritage Park/Bassett Creek were built as replacement units as part of the Hollman Consent Decree. The City and MPHA selected McCormack Baron Associates (now known as McCormack Baron Salazar or MBS) as Development Partner. The apartments were built in four phases and were placed in service from 2003-2005. MPHA has the option to purchase Bassett Creek (Phase IB) this year (in 2017) and the other phases are in subsequent years.

HERITAGE/BASSETT	PH/LIHTC	LIHTC-only	Market	TOTAL
1	0	51	30	81
2	91	36	91	218
3	76	12	20	108
4	23	0	0	23
5	10	0	0	10
TOTAL	**200**	**99**	**141**	**440**

Scope: The Minneapolis Public Housing Authority (MPHA) requested that CSG Advisors review the Heritage Park/Bassett Creek structure/financials and develop financial models that show leverage options. CSG evaluated various alternatives to determine options available to MPHA as the phases enter the end of the 15-year compliance period.

Heritage Park



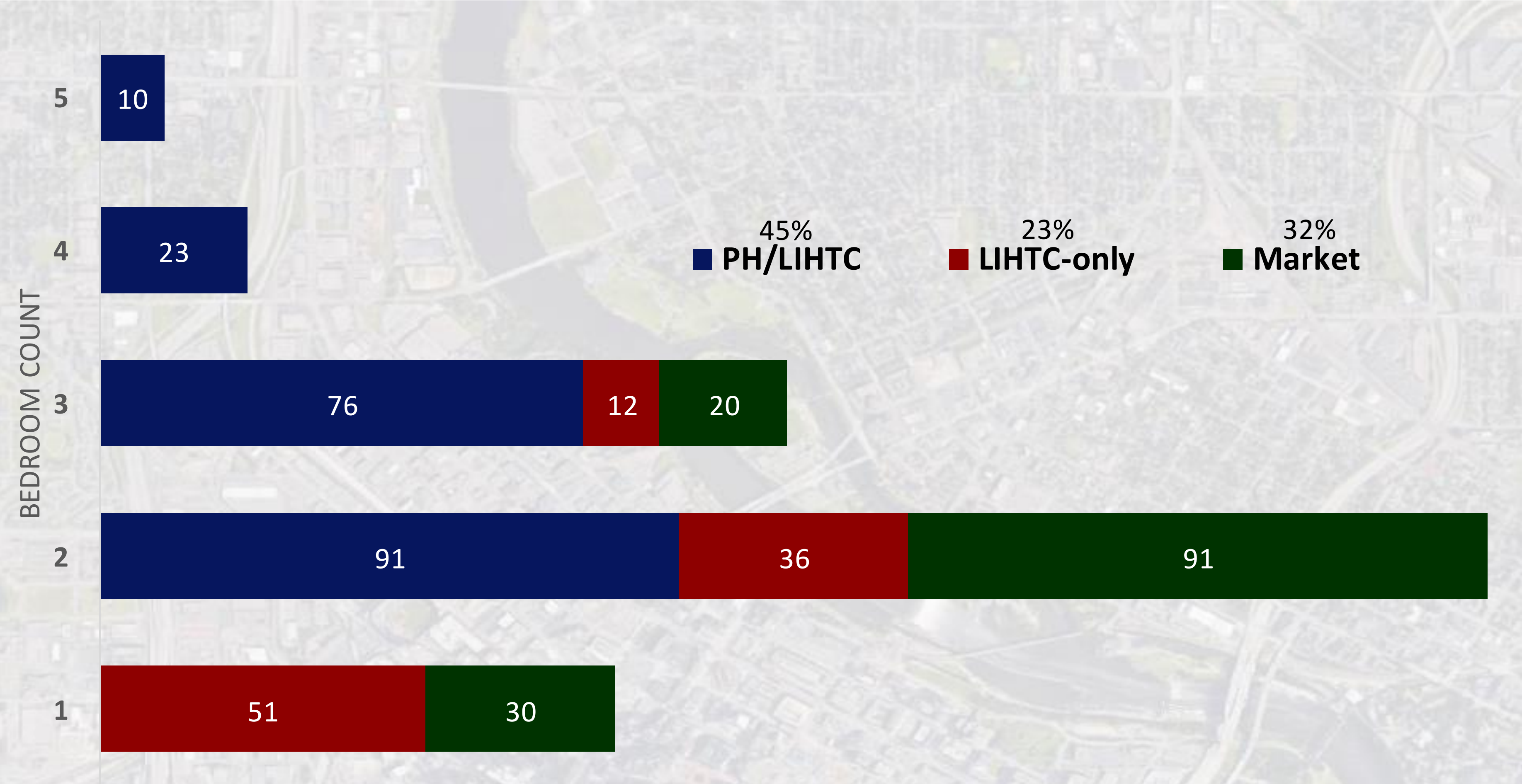
Opportunities:

- High demand (99% occupancy)/relatively high rents.
- Extensive amenities.
- Potential to earn developer, asset and property management fees (diversify revenue).
- MPHA potential to own and manage RAD, LIHTC and market rate apartments (diversify portfolio).
- Location – access to amenities: job centers, transit, schools, recreation. Near the central business district and the proposed light rail blue line extension.
- Mixed-income rental, also part of a larger planned development that also includes for-sale homes.
- The exterior of the buildings are in good condition.
- Local community support - the success, stability and sustainability of this neighborhood is critical to the City and stakeholders.

Challenges:

- High operating expenses (resident services programs - Urban Strategies, staffing, security, expensive community spaces).
- Significant debt has accumulated on the four phases with no cash flow.
- Requiring that MBS reduce their expenses based on MPHA annual operating budget review.
- Revising MPHA's bylaws to allow the agency to own and manage units that are not subsidized.
- Public housing units do not break even.
- The physical conditions analysis found high capital needs.

Heritage Park/Bassett Creek Unit Mix



- The one-bedrooms are all LIHTC-only and market, none are public housing.
- 50% are two-bedrooms, equally PH/LIHTC and market, as well as some LIHTC-only.
- 25% are three-bedrooms, predominately public housing, some market and LIHTC-only.
- 2% and 5% are four and five bedroom, all of which are PH/LIHTC.

Heritage Park

Financial Models

- As-is scenario - current revenue and expenses
- RAD/enhanced - 15% reduction in expenses
- The hard costs are taken from a Physical Conditions Assessment completed by McCormack Baron Salazar in 2016.

Next Steps

CSG recommends that after MPHA completes its analysis of existing capital needs and legal counsel has reviewed the transactional documents, MPHA should consider:

- Exercising its option to purchase the four phases, including the site and the 440 mixed-income apartments.
- Refinancing the existing debt.
- Converting the 200 (potentially more using transfer of assistance) existing public housing units to RAD.

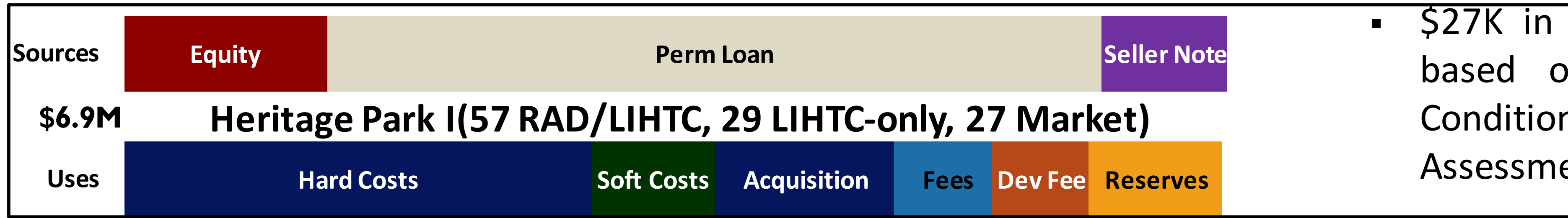
Assumptions in Operating Budget

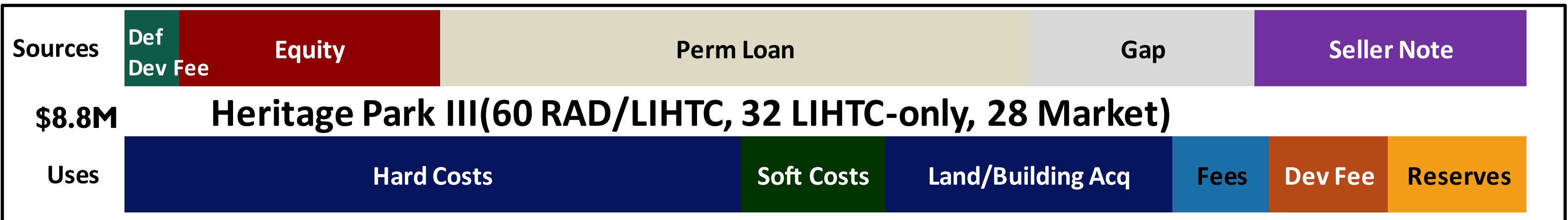
- Full RAD Rents
- $500 Replacement Reserve
- 15% reduction in MBS current operating expense per unit
- 6% vacancy rate

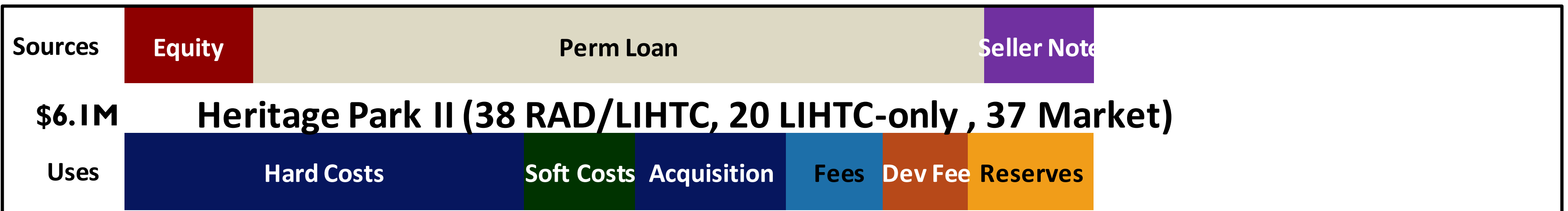
Assumptions in Development Budget:

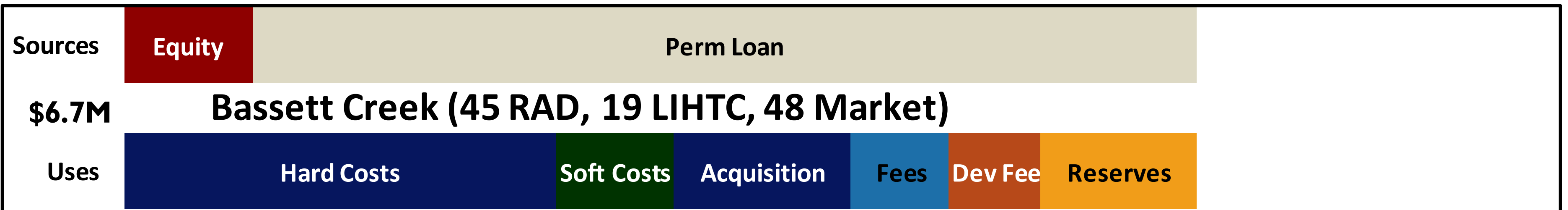
- Recapitalizing with 4% LIHTC
- Modest acquisition; $10K per unit – Potential impact to purchase price
- $27K in hard costs based on Physical Conditions Assessment
- Equity Price at $0.95
- Debt sized at 6% rate, 40 year term

Heritage Park Sources and Uses



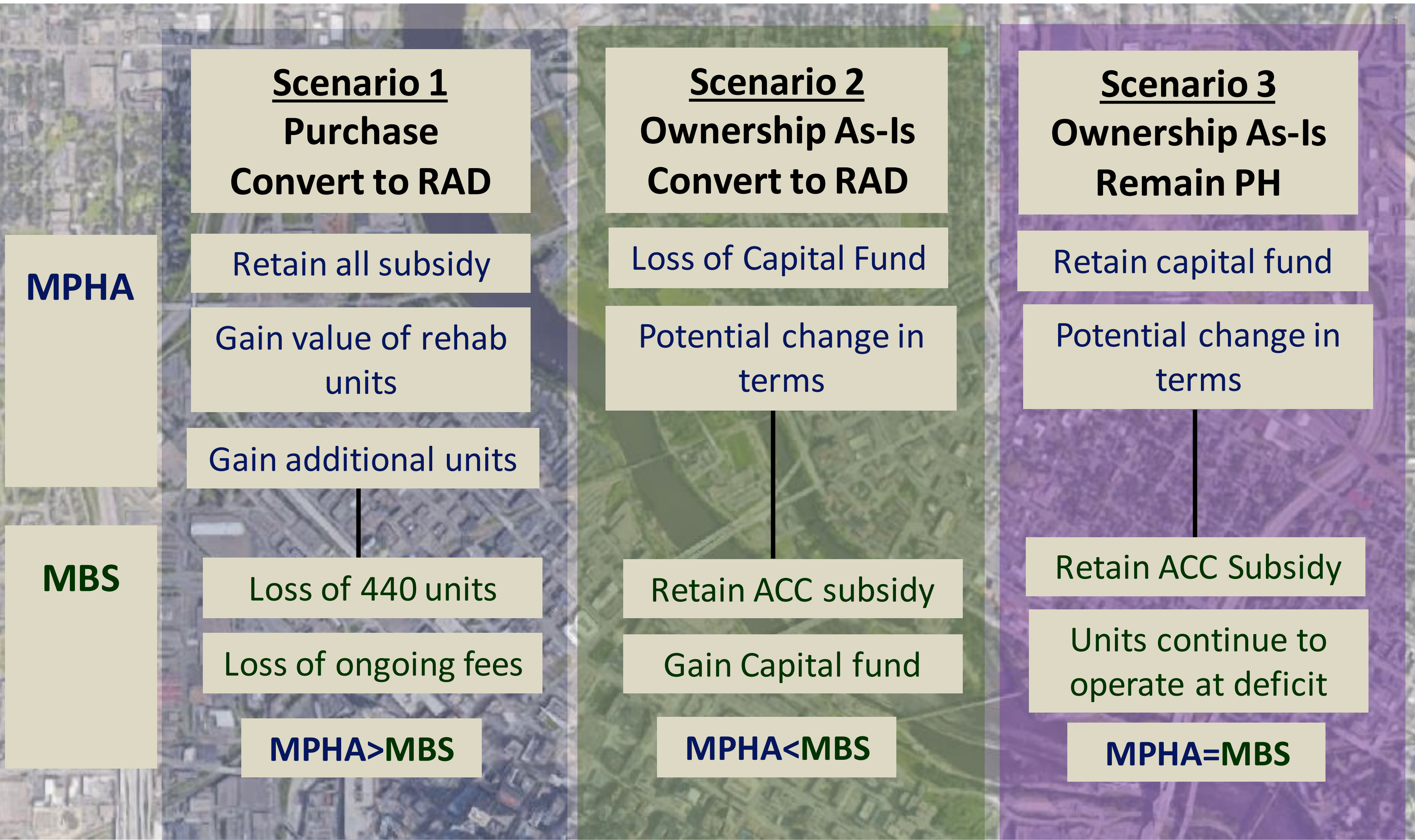






Numbers are in millions 1 2 3 4 5 6 7 8 9

Heritage Park Options



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Capital Needs

Capital Needs Summary

MPHA measures and tracks capital needs for units it owns in AMPs 1 through 7 (5,936 units).

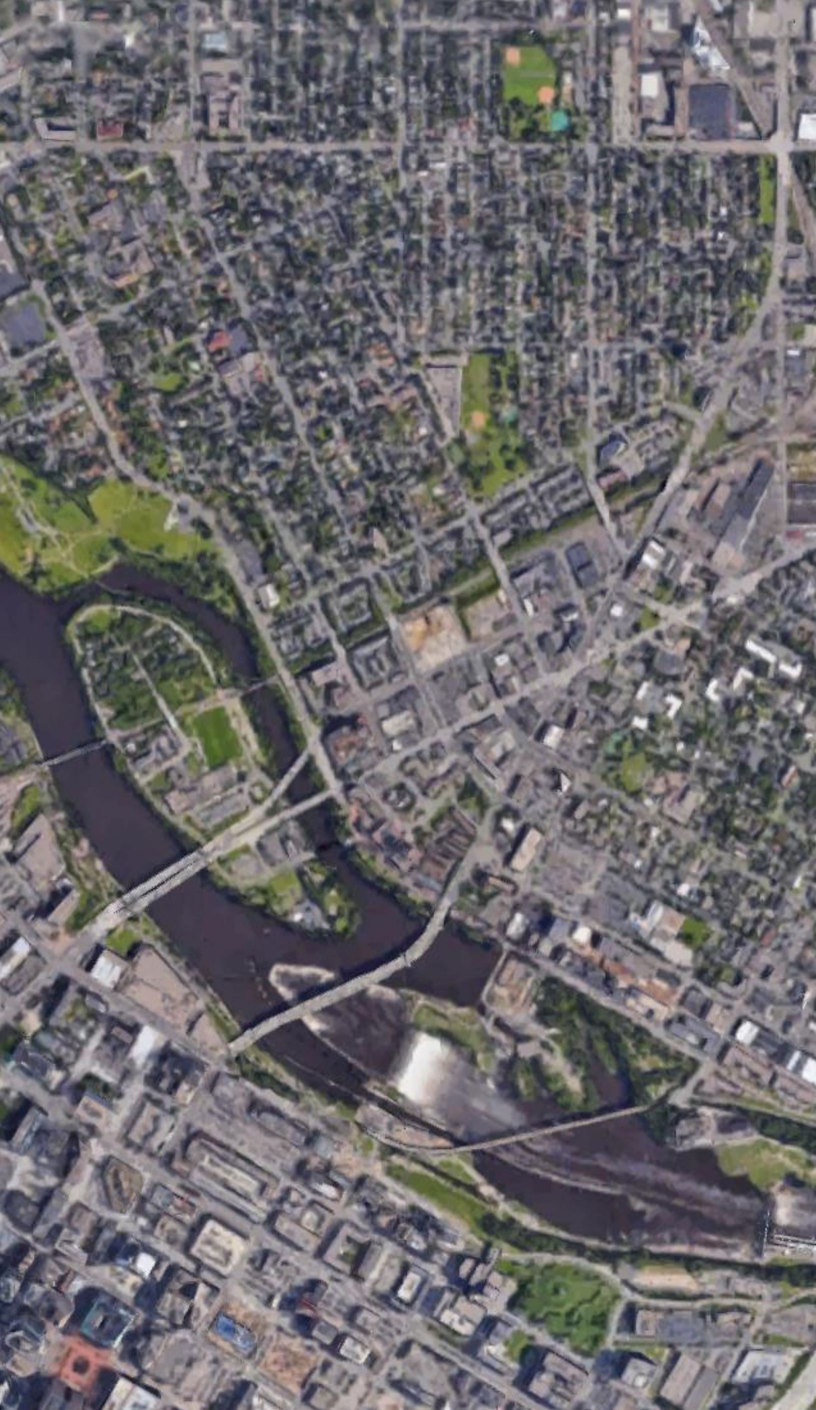
MPHA administers, but does not own, the public housing units in AMPs 8 and 9 (312 units). Capital needs for these units should be funded from replacement reserves established at these properties.

MPHA's Capital Needs *
Existing (2017) $125M
Accrued (2018-2027) $220M
Accrued (2028-2037) $178M

Existing Needs – repairs/replacements beyond ordinary maintenance required to provide decent and economically sustainable housing.

Accrued Needs - expected ongoing repairs/replacements beyond ordinary maintenance, assuming that all existing needs are met.

** Please note that these totals include only MPHA's residential assets (MPHA's office and maintenance buildings and the McCorvey Center were taken out from this total.)*



Capital Needs Summary

CSG is evaluating various structuring and leveraging options to assist MPHA in strategically programming its $10.2M in annual capital funds and develop a portfolio strategy. CSG's analysis uses the following metrics.

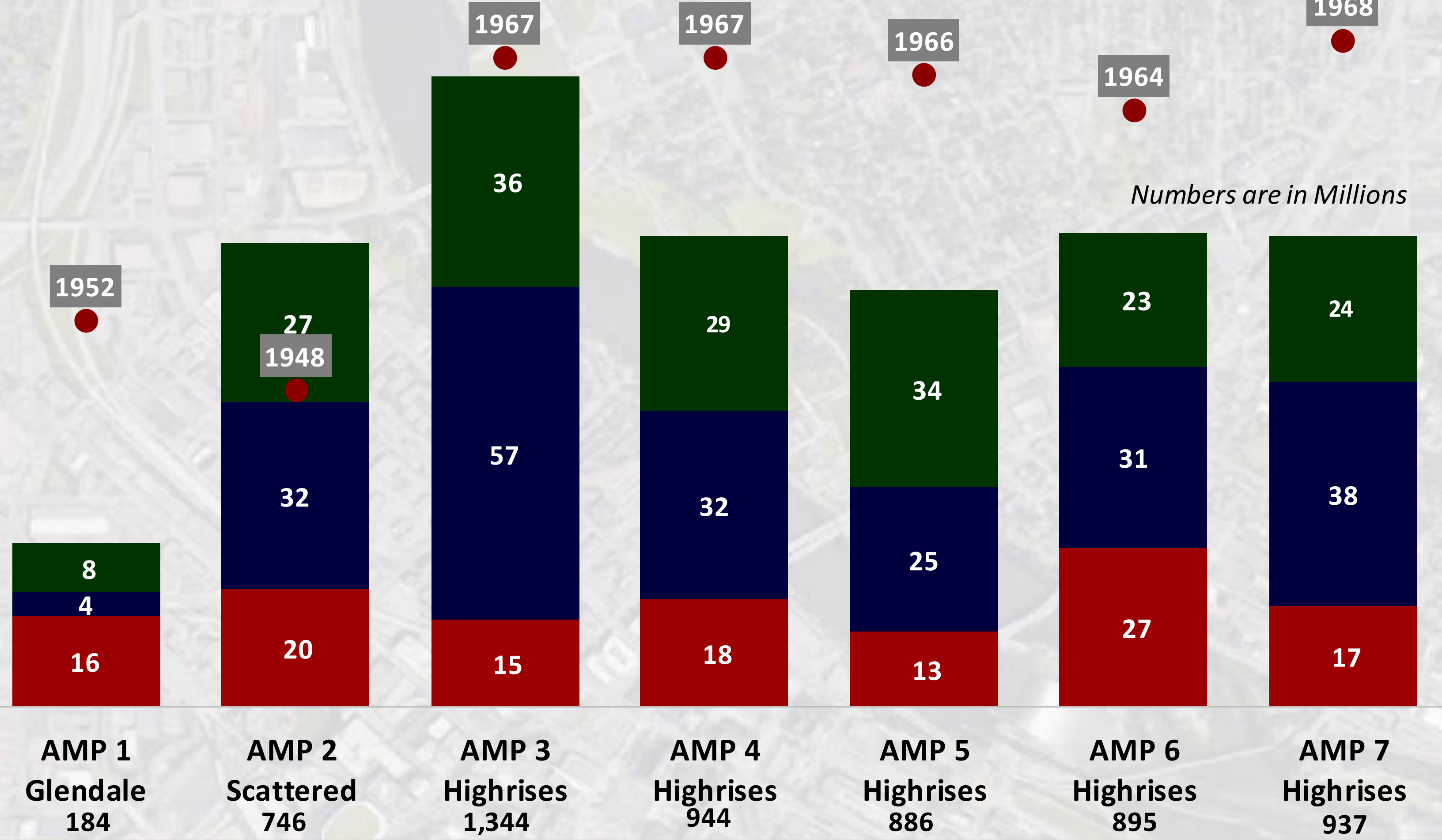
Capital needs by AMP indicates total existing and accrued capital needs by AMP.

Facility Cost Index (FCI) provides a comparative indicator of the relative condition of each MPHA facility (development). FCI is expressed as a ratio of the cost of remedying maintenance deficiencies (deferred maintenance) to the current replacement value (CRV). FCI provides facility managers a method of measurement to determine the relative condition index of a single facility or group of facilities. FCI is calculated as the percentage of Total Current Maintenance Deficiencies/Total Current Replacement Value

Capital needs ranked by unit indicates MPHA's properties with the highest and lowest capital needs by unit.

MPHA is planning $4M in capital improvement projects for the remainder of 2017 and $10.5M in 2018. These projects will partially offset the total estimate of capital need. The work includes replacement of major systems and comprehensive rehab of units, as well as replace of roofs at scattered sites.

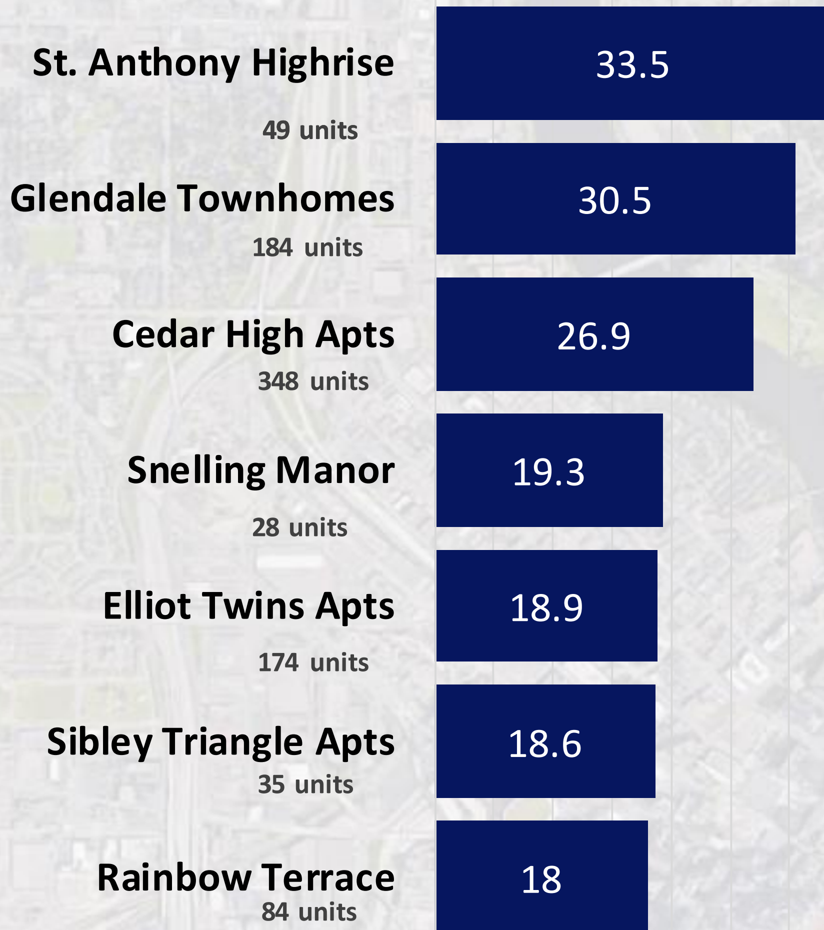
Capital Needs By AMP

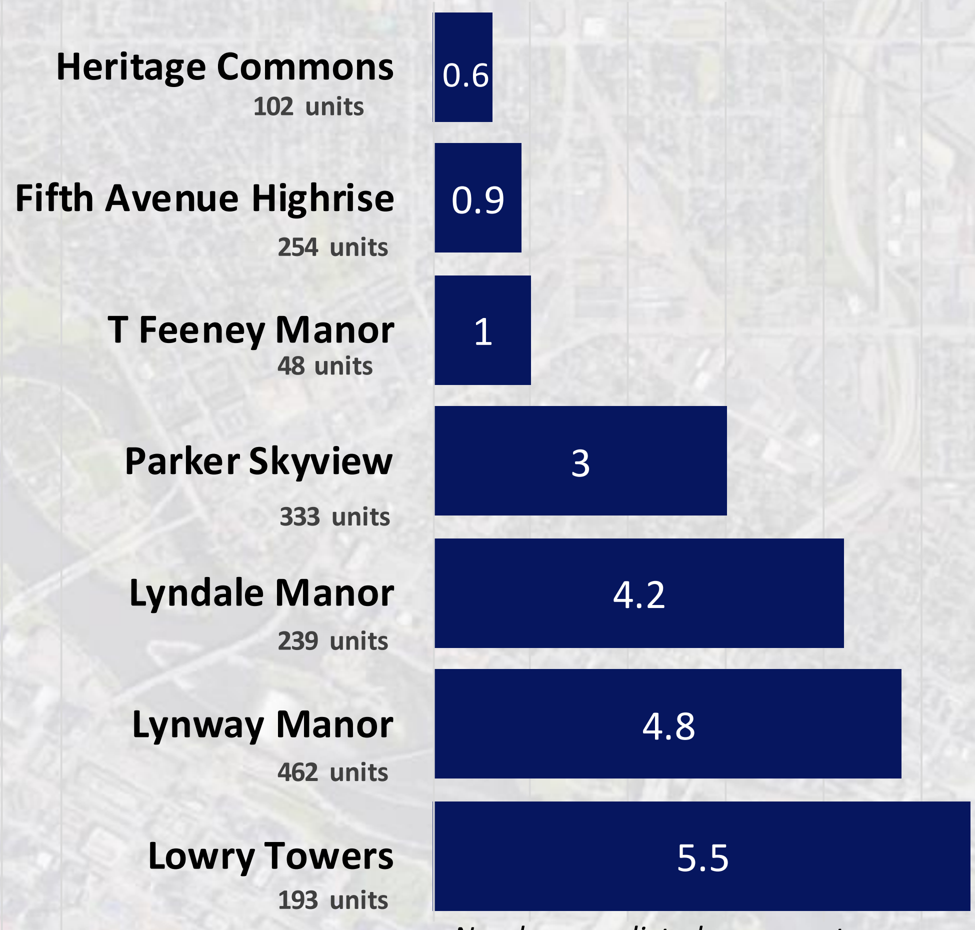


MPHA Capital needs: $126M existing; $220M accrued 2018-2027; $182M accrued 2028-2037.

Notes: The totals shown above do not factor in MPHA's 2017/2018 planned capital fund investments. Heritage Commons (2005) and Feeney Manor (2011) were removed as outliers from the average age for AMP 3. MPHA's offices, the McCorvey Senior Center, maintenance building are not included, these needs total $12.3M from 2017-2037.

2017 Facility Cost Index (FCI)





FCI = Renewal and Repair Costs/Replacement Costs

Good 0-5%; **Fair** 6-10%; **Poor** 11-30%; **Critical** >30%

Please note that this information does not factor in MPHA's capital investment projects currently underway.

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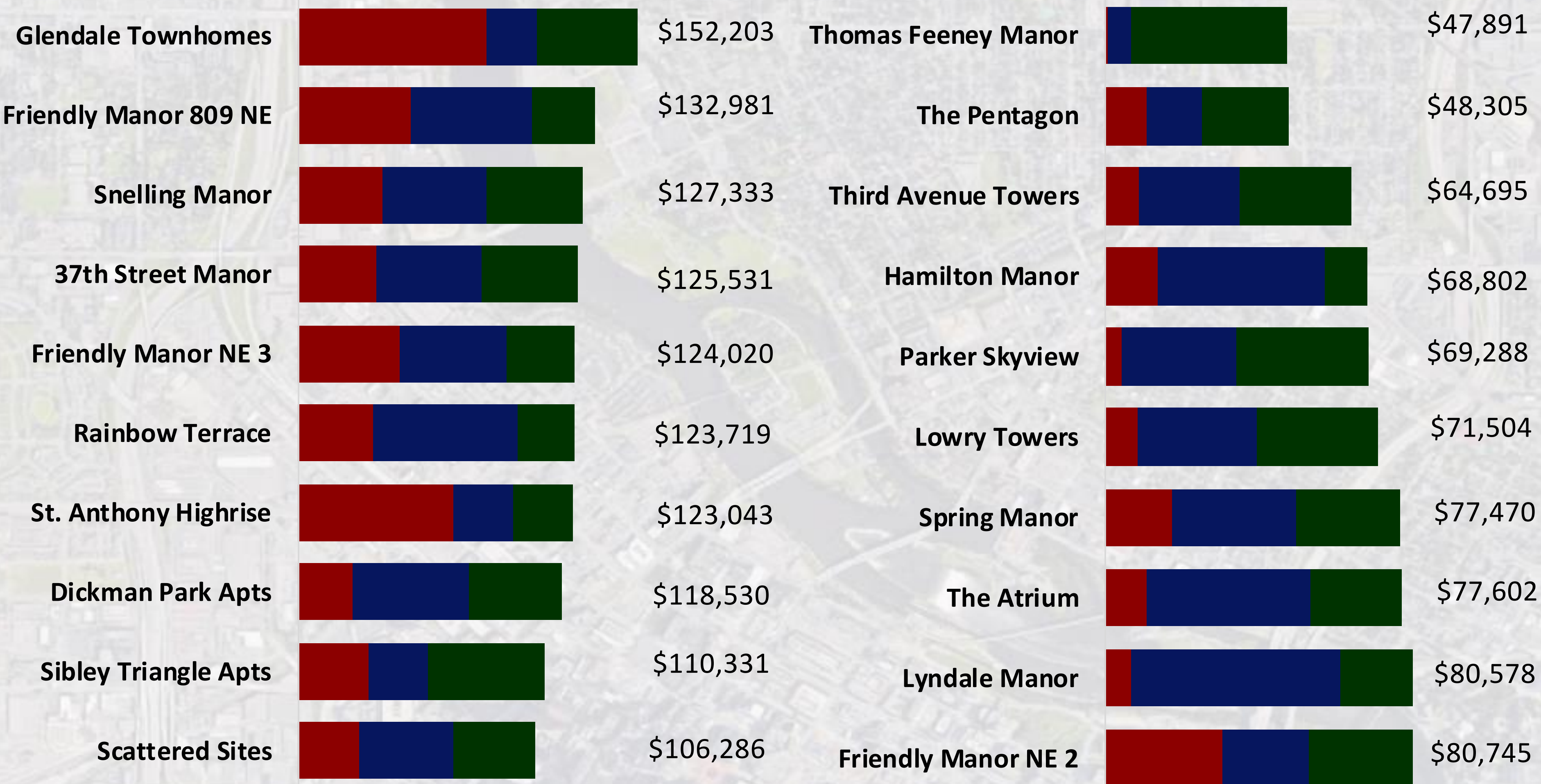
Data Source: Ameresco Asset Planner MPHA PNA database

Capital Needs (2017-2037) Ranked Per Unit



Glendale Townhomes has the greatest capital needs (2017-2037) at $152,203 per unit.
Thomas T Feeney Manor has the lowest capital needs (2017-2037) at $47,891 per unit.

Economic Impact of Redevelopment Activities

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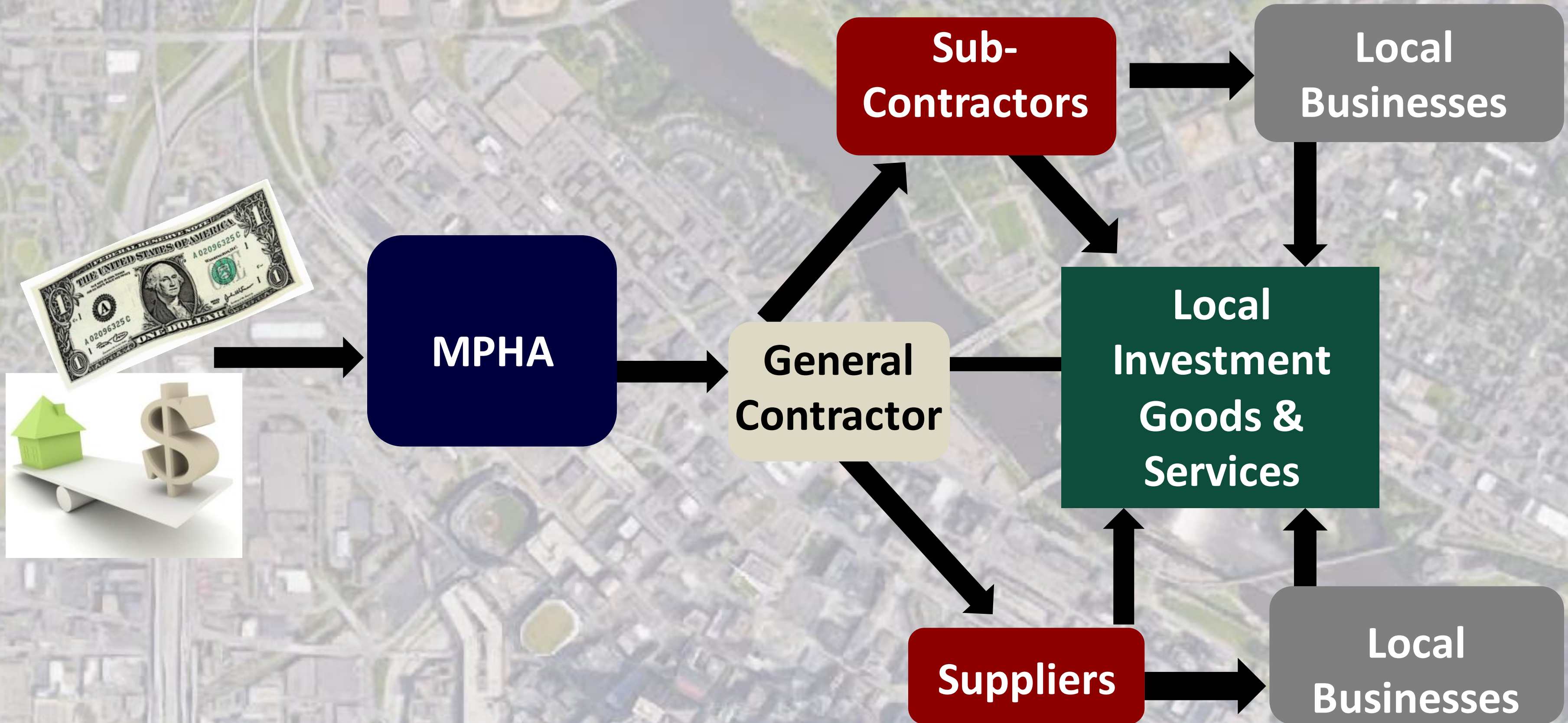
Multiplier Effect of Developing Affordable Housing



Highlights of the Local Economy Impact

Local industries involved in affordable housing development.

Jobs, wages and local taxes (including permit, utility connection, and other fees) generated by the actual affordable housing construction and related activities.

Phase II

Ripple effect.

Wages and profits for local area residents earned during the construction period are spent on other locally produced goods and services.

Phase III

Ongoing, annual effect.

Local jobs, income, and taxes generated as a result of the creation of new communities and a greater number of apartment homes being occupied.

Highlights of the Local Economy Impact

Phase I

Local industries involved in affordable housing development

- 4,000 construction jobs
- $208M in wages

Phase II

Ripple effect

- Spin-off jobs
- Wages

Phase III

Ongoing, annual effect

- Permanent jobs
- Wages
- *Additional taxes and fees*

Highlights of the Local Economy Impact

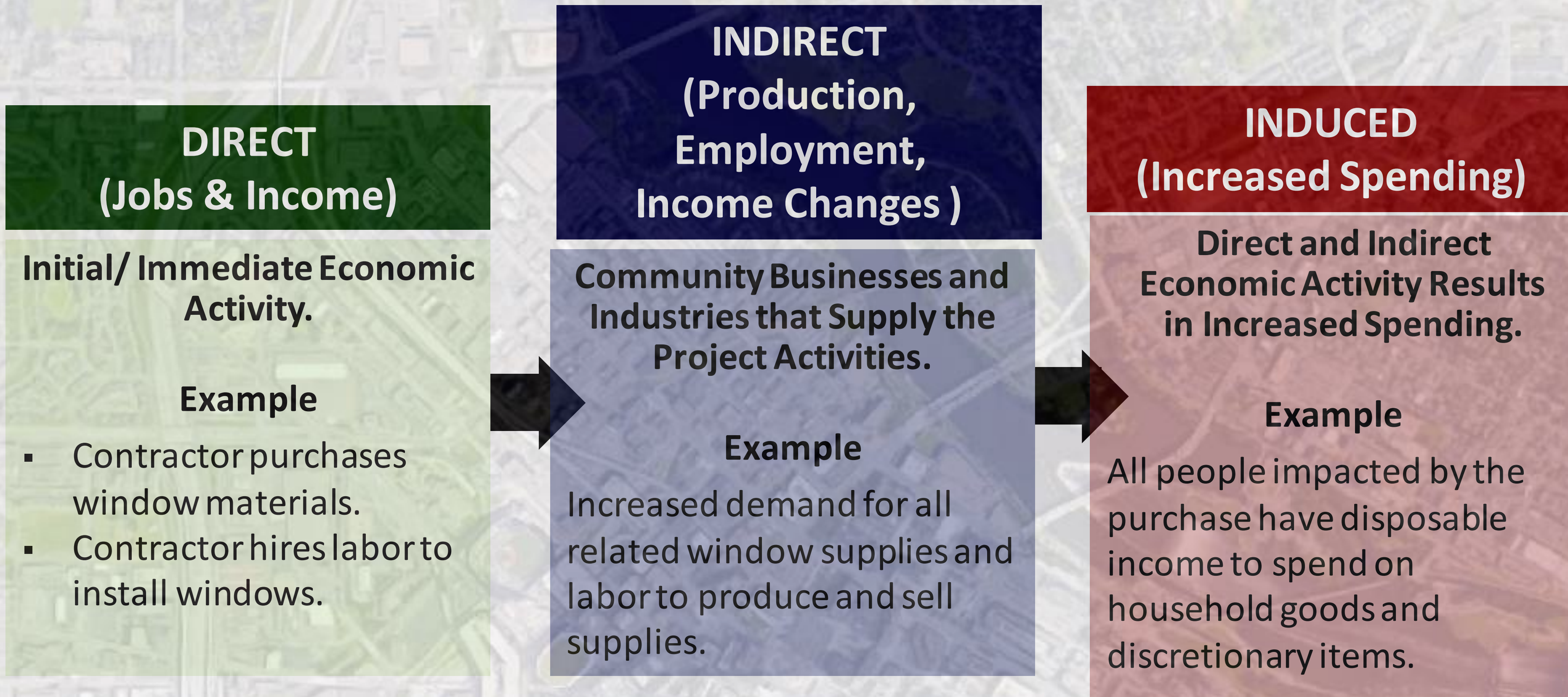
Project Sites	Construction 40% Labor	Construction 60% Materials	TOTAL
Glendale Townhomes 350 Units New Construction	$28M	$42M	$70M
Scattered Sites 746 Units Rehab	$32M	$47M	$79M
High Rise Buildings 5,600 Units Rehab	$163M	$245M	$408M
Totals	**$223M**	**$334M**	**$557M**

Glendale Townhomes reflects new construction hard cost estimates based on similar projects in the area.
Scattered Sites and Highrises reflect hard costs based on Ameresco's 2017-2038 Physical Needs Assessment.

($223M / $60,000) = 3,716 jobs

Approximately 3,716 construction jobs could potentially be created as part of the reinvestment in Minneapolis' affordable housing portfolio.

Highlights of MPHA's Local Economic Impact



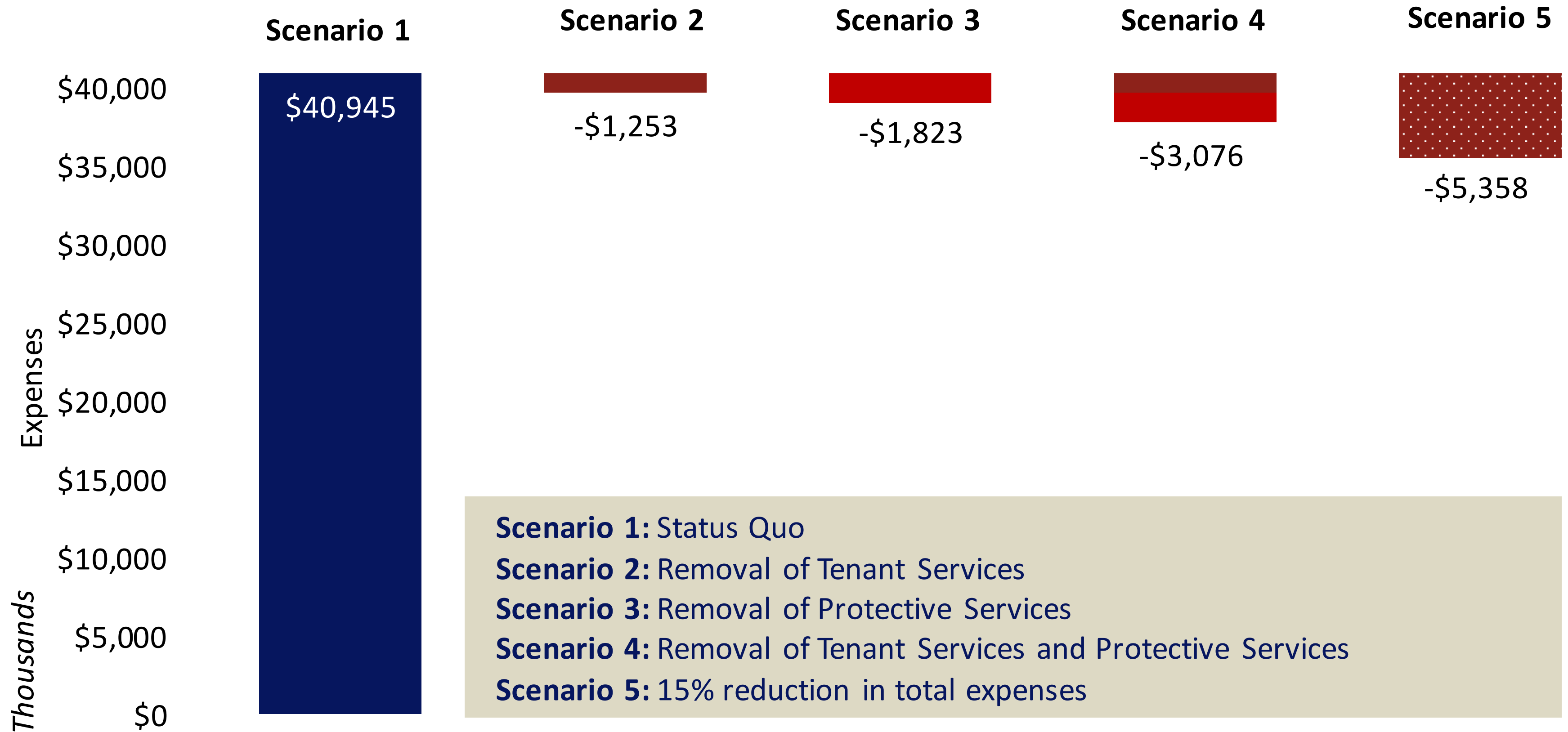
Larger Impact – Post Construction (Ongoing and Long-Term)

- **For every dollar of direct federal, state, local spending on housing capital or maintenance, an additional $1.12 of indirect and induced expenditures is generated by suppliers, vendors, and wage-earners.**
- **Every dollar of affordable housing operating expenditures generates an additional $0.93 of economic activity in the local market.**
- **Ongoing public housing operations support additional jobs.**

Source: Center for Housing Policy, 2011

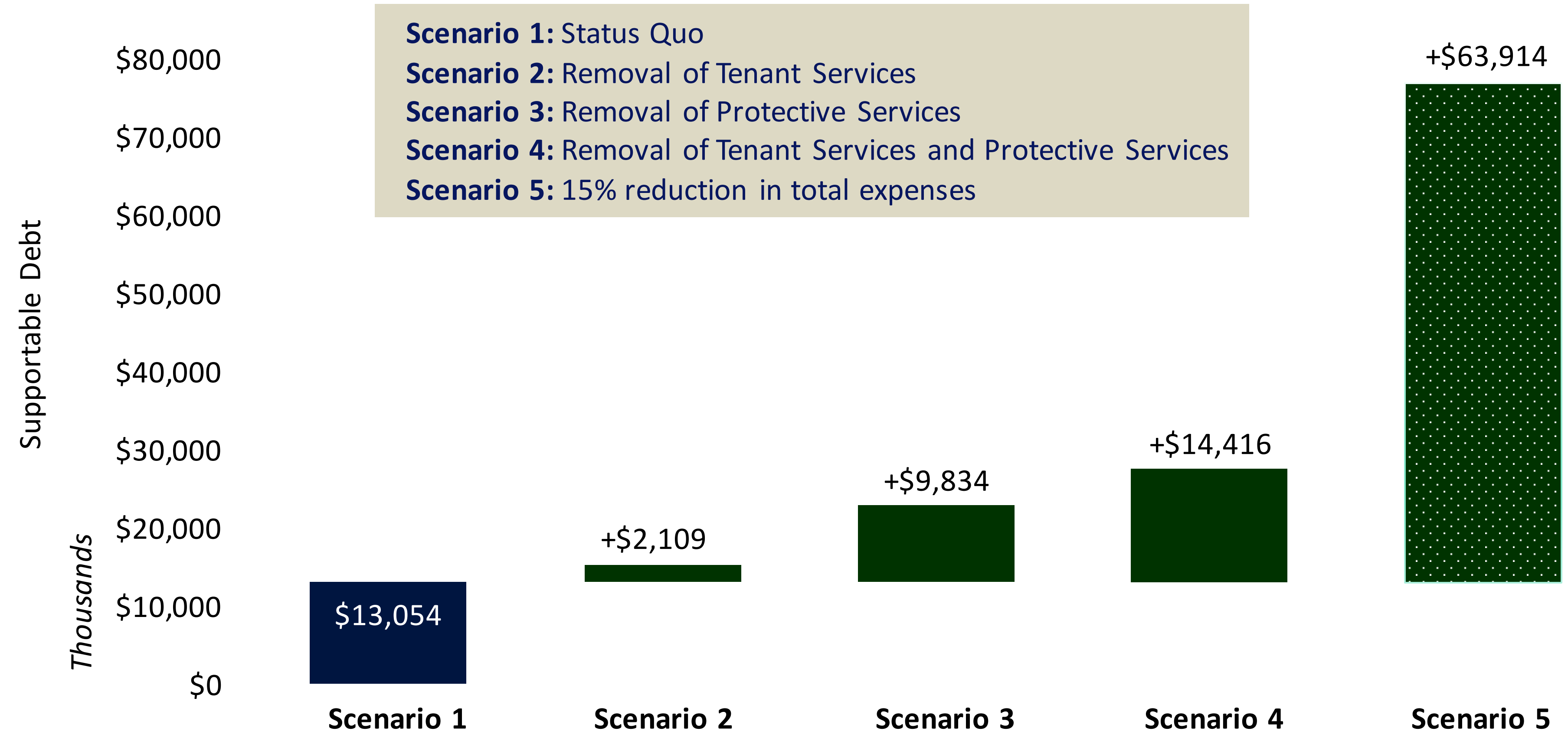
Reducing Expenses and Increasing Revenue

Overall Impact



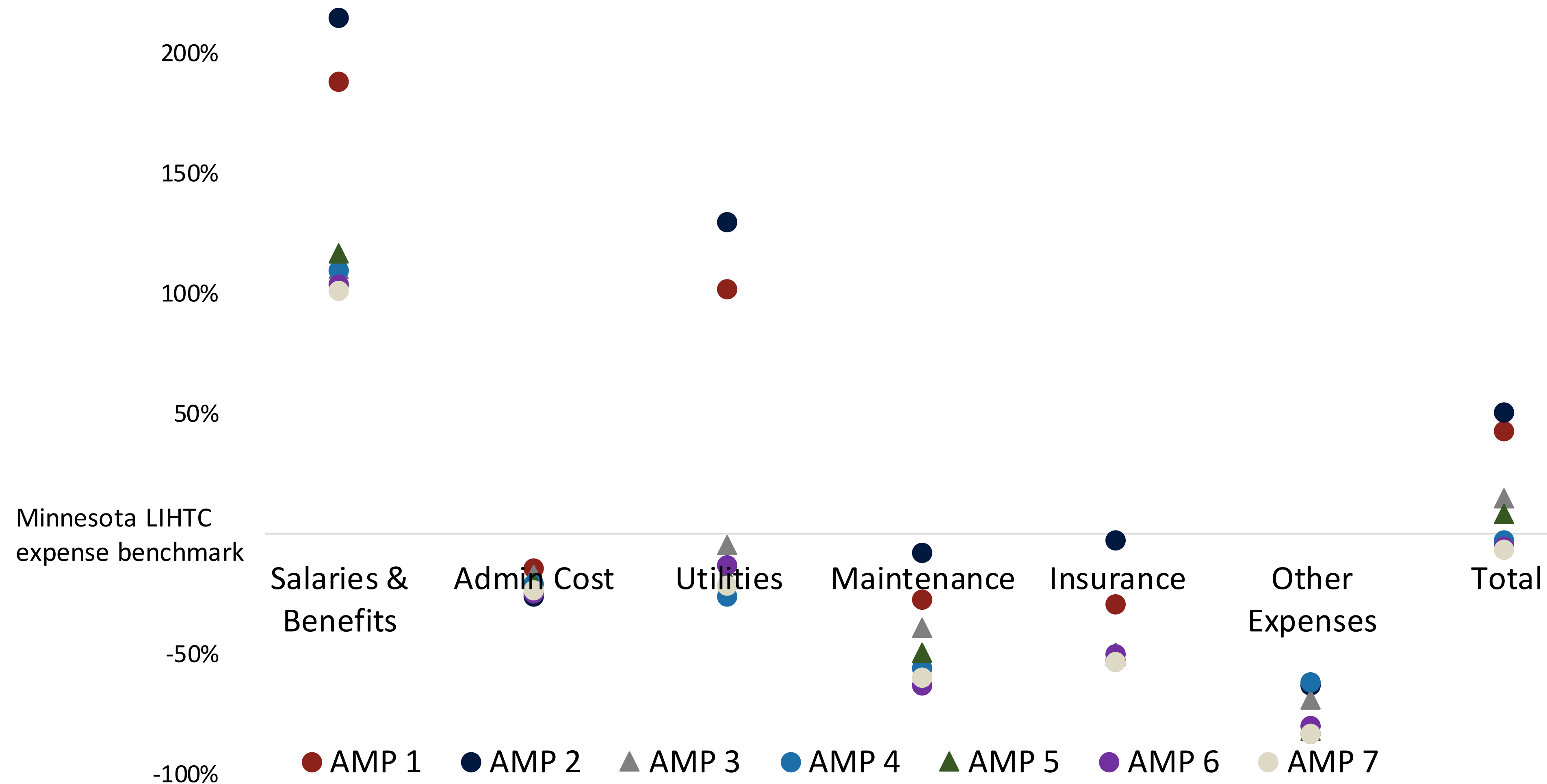
- Overall, MPHA has the potential to save funds for their core mission of housing and raise additional debt for future improvements, by finding ways to cut costs for security and tenant services. While these programs greatly improve the quality of lives for residents, they do not have to be funded or administered by MPHA personnel to be run effectively.
- While reducing 15% of expenses can provide the largest savings and largest amount of debt, it is also the most difficult to achieve. Removing security and tenant services would represent 7.8% of MPHA costs at the property, which would require an additional 7.22% ($2.86M) decrease in expenses.

Overall Impact



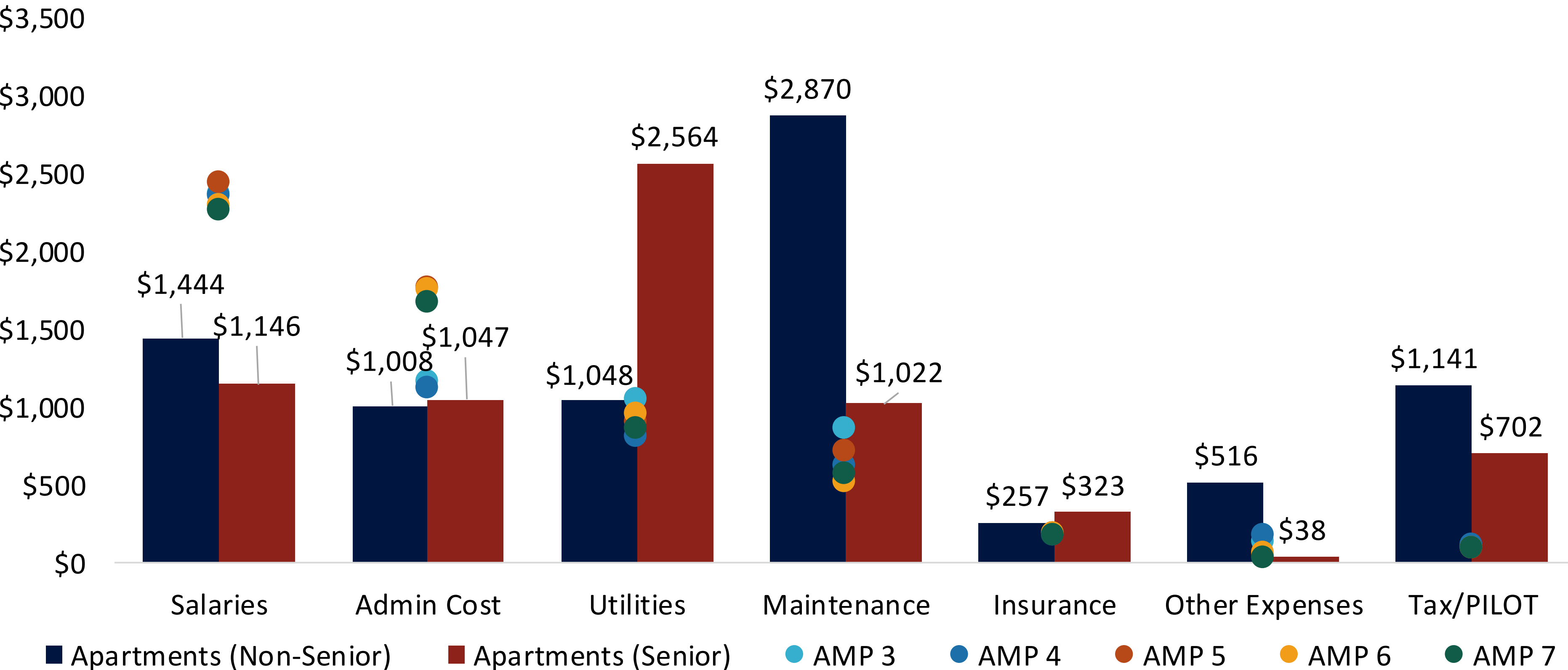
- Reducing expenses will allow MPHA to increase the amount of supportable debt through a variety of means. By removing the cost for tenant and protective services, MPHA can raise up to $28 million in supportable debt. Reducing overall expenses by 15% will provide MPHA the maximum amount of additional supportable debt debt with an additional $65.5 million of debt from the current status quo.
- Shedding additional costs will allow MPHA to focus on its core housing mission, and raise additional debt to allow MPHA to address Urgent ($7M) and High ($29M) capital needs.

MPHA/LIHTC Comparison – Cost per unit



- Other Expenses for LIHTC Benchmark is Real Estate Taxes per unit cost.
- MPHA's AMPs 1 and 2 represented the largest per unit expenses in Personnel and Utilities.
- MPHA's AMPs 3 and 5, which ran a deficit in 2016, showed high per unit costs in Other Expense.

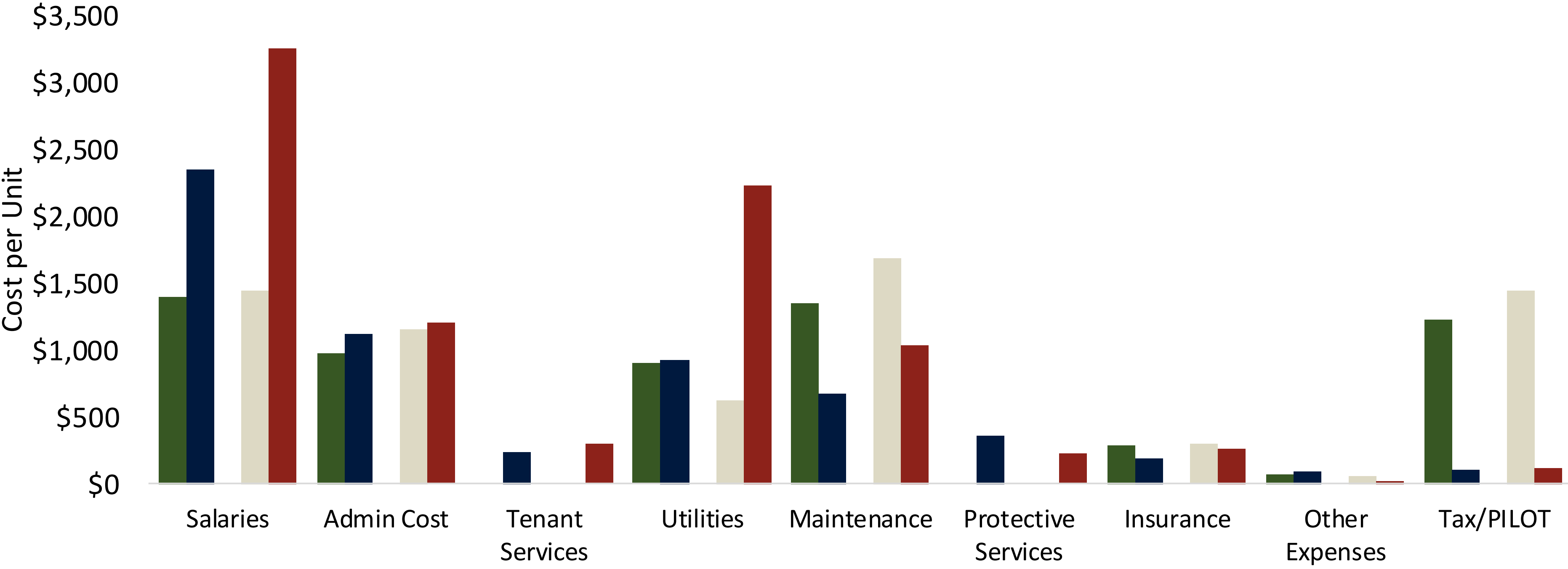
2016 Operating Expense Comparison



Data Sources: MPHA 2016 data and MN Multi-Housing Association 2016 data

- MMHA Apartments benchmark include buildings with the following criteria:
  - Elevator in building
  - Are more than 45 years old
  - Have more than 100 units
  - Heat, water, and sewer paid for by owner

2016 Operating Expense Comparison



Data Sources: MPHA 2016 data and MN Multi-Housing Association 2016 data

- MPHA's Glendale Townhomes/High rise sites: Salaries ↑ (nearly double) MN Multi-housing townhomes and apartments.
- Glendale Townhomes Utilities ↑ (nearly triple) MN Multi-housing townhomes
- MN Multi-Housing Maintenance Townhomes/Apartments includes all capital expenditures, while MPHA does not.
- MN Multi-Housing Townhomes/Apartment do not budget for tenant services or protective services/security.
- MN Multi-Housing Townhomes/Apartment pay taxes, while MPHA pays payment in lieu of taxes (PILOT).

2016 MPHA Revenue and Expense

Property	Revenue per Unit	Expense per Unit	NOI	Debt Service	NOI after Debt Service
Glendale Townhomes	$8,718	$8,624	**$93**	$72	**$21**
Scattered Sites	$9,980	$9,092	**$889**	$78	**$810**
AMP 3	$6,448	$6,786	**-$339**	$414	**-$753**
AMP 4	$6,169	$5,647	**$522**	$616	**-$94**
AMP 5	$6,055	$6,374	**-$320**	$432	**-$752**
AMP 6	$6,039	$5,632	**$408**	$264	**$144**
AMP 7	$6,039	$5,472	**$566**	$421	**$145**

$420k ($70 per unit) of 2016 expenses were paid for with settlement payments and are not included.
$49k ($8 per unit) in insurance proceeds from Other Revenue from were excluded.

Highest Net Operating Income (NOI) per unit

AMP 2 – Scattered Sites had the highest revenues and expenses per unit.

AMP 7 – High Rise properties had the lowest cost per unit due to low maintenance and protective service costs.

AMP 6 – High Rise maintenance expenses were lower than other High Rise properties.

AMP 4 – High Rise expenses include lower than average protective services and maintenance costs.

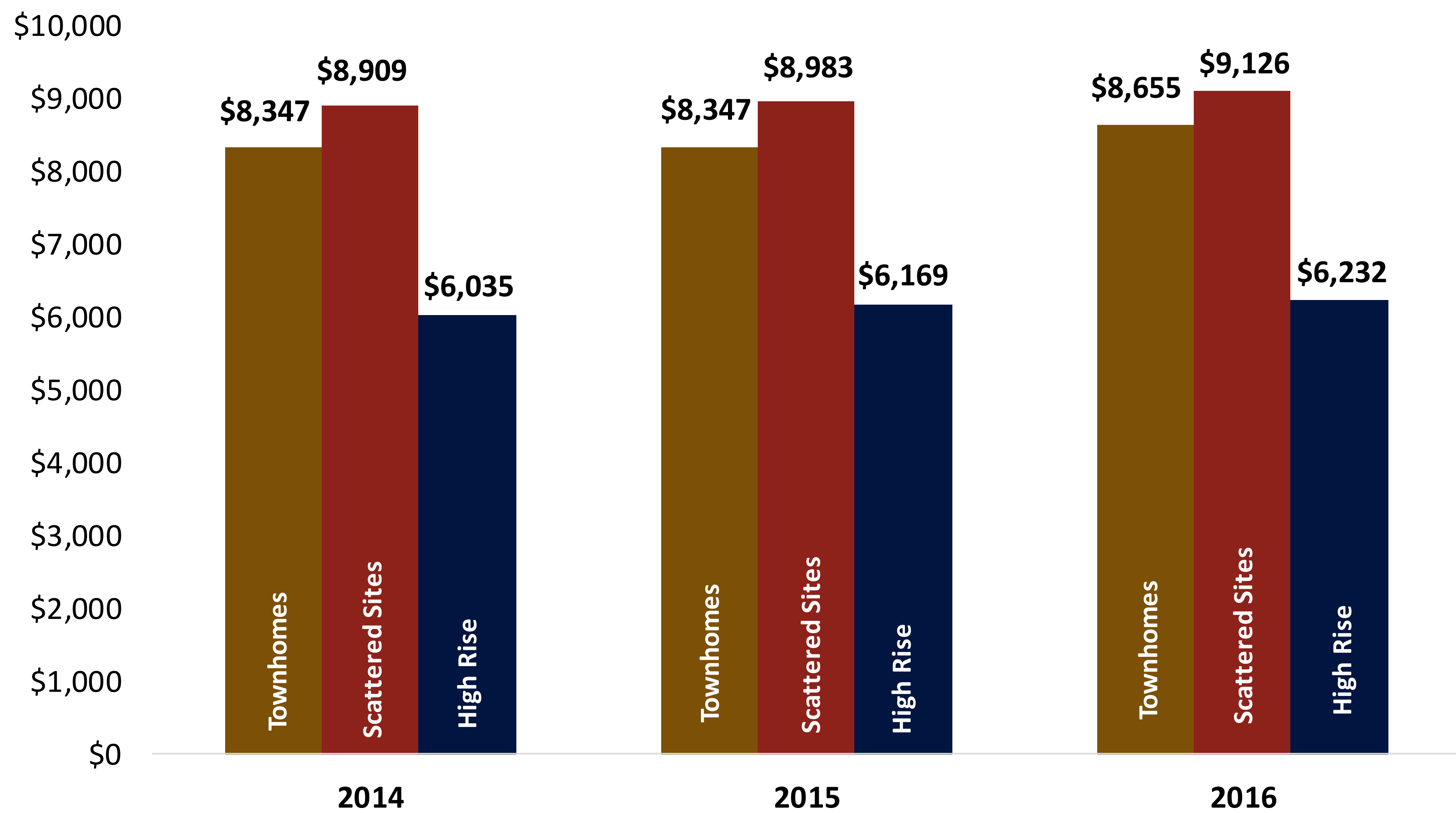
Lowest Net Operating Income (NOI) per unit

AMP 3 – High Rise expenses were driven up by tenant services costs and protective services.

AMP 5 -- High Rise expenses were driven by high protective services and maintenance costs.

AMP 1 – Glendale Townhomes had positive NOI, but had high per unit expenses, driven by high personnel, utility, and maintenance costs.

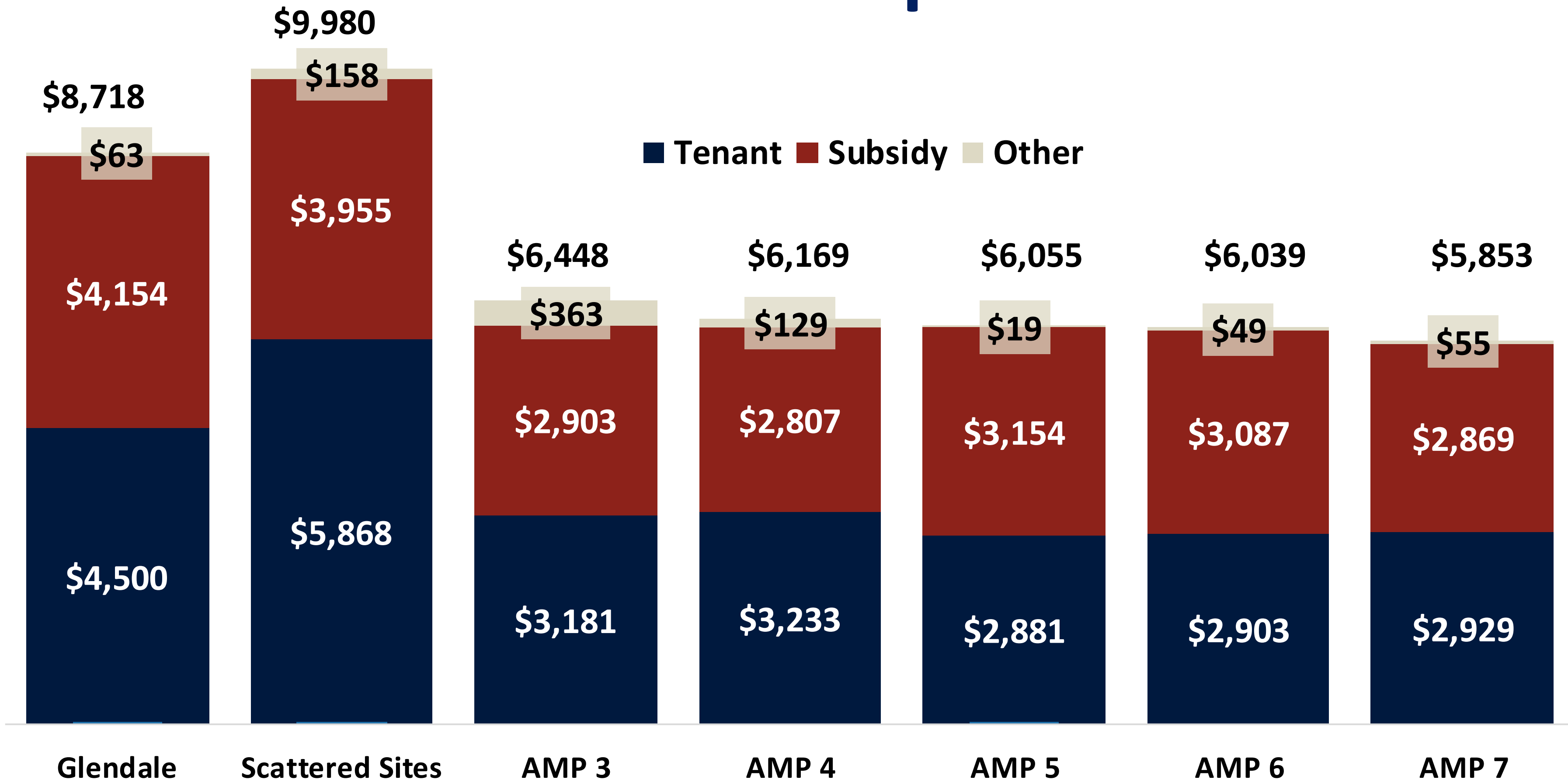
Operating Expenses By Unit/Building Type Trend



Scattered Sites have the highest per unit cost, with high personnel and maintenance costs when compared to Glendale Townhomes and other high rise properties.

Data Source: MPHA 2016

2016 Revenue per Unit



- The Scattered Sites have the highest revenue per unit at $10,044, followed by Glendale Townhomes at $8,718.
- AMP 3 includes $289 per unit in Other Revenue from HPSSC.
- For the high rise AMPs, which is mostly one-bedroom and senior-occupied, the tenant revenue ranges from $2,881 to $3,233 per unit and total revenue ranges from $5,853 to $6,448.
- High rise AMPS include 3, 4, 5, 6 and 7 and make up 80% of MPHA's portfolio (5,006 units).

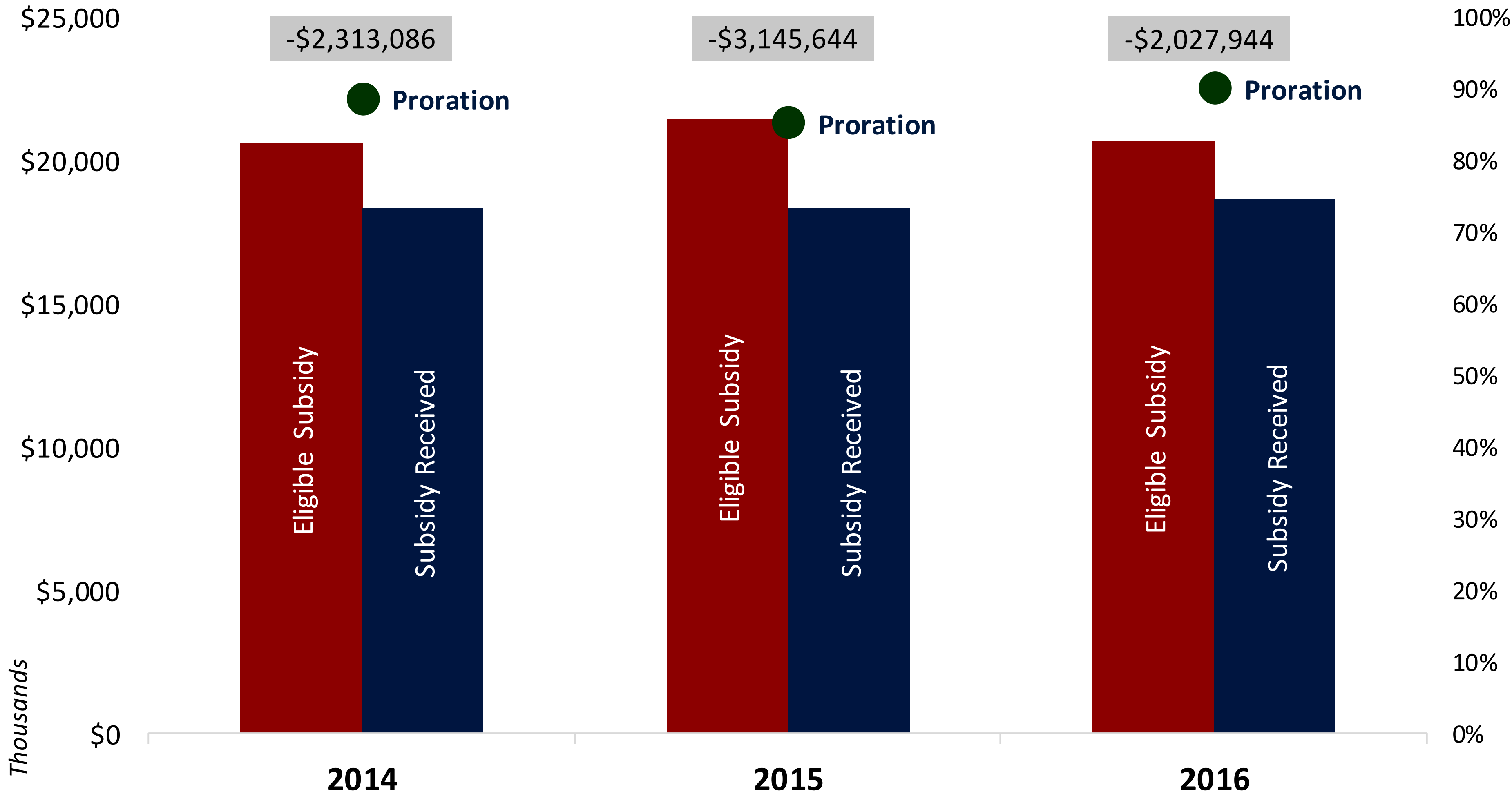
Tenant Rent – Based on Actuals

Year	2014	2015	2016
Average Rent	$260	$270	$279
Average Income	$10,382	$10,788	$11,147
% Increase		*3.90%*	*3.33%*

AMP	Units	Tenant Income based on Actuals	% of AMI ($90,400)	Average Rent based on Actuals	FMR Based on Unit Size	% of FMR
Glendale Townhomes	183	$14,500	16.04%	$362	$1,296	27.97%
Scattered Sites	733	18,870	20.87%	472	1,560	30.24%
3	1,333	10,247	11.34%	256	832	30.77%
4	908	10,425	11.53%	261	830	31.39%
5	879	9,449	10.45%	236	848	27.84%
6	855	9,472	10.48%	237	835	28.35%
7	907	9,564	10.58%	239	863	27.70%
Grand Total	**6,096**	**$11,147**	**12.33%**	**$279**	**$946**	**29.47%**

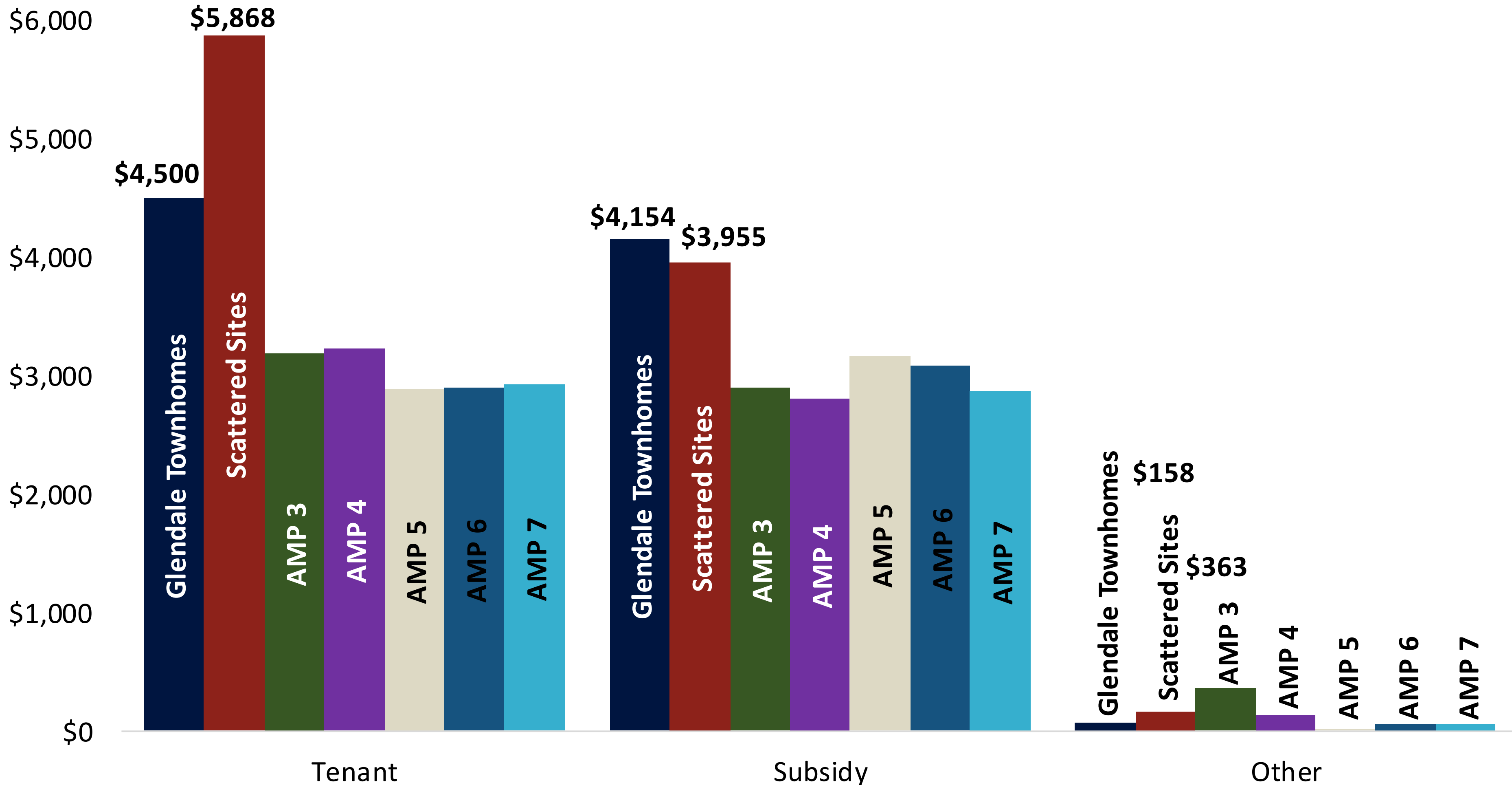
- The average income shown is calculated as net income (income less allowable exclusions).
- The fair market rent is averaged based on the bedroom distribution.
- From 2014 to 2016, MPHA's tenant rent has grown 3% each year, while tenant incomes have increased 5% between 2015 and 2016.
- Average annual income based on actuals is approximately $11,000.
- Scattered Sites have incomes that are 70% higher than MPHA's average and is the closest to FMR.
- AMP 5 has the lowest average income by 14% as compared to MPHA's average and is farthest from the FMR.

IMPACT OF SUBSIDY PRORATION



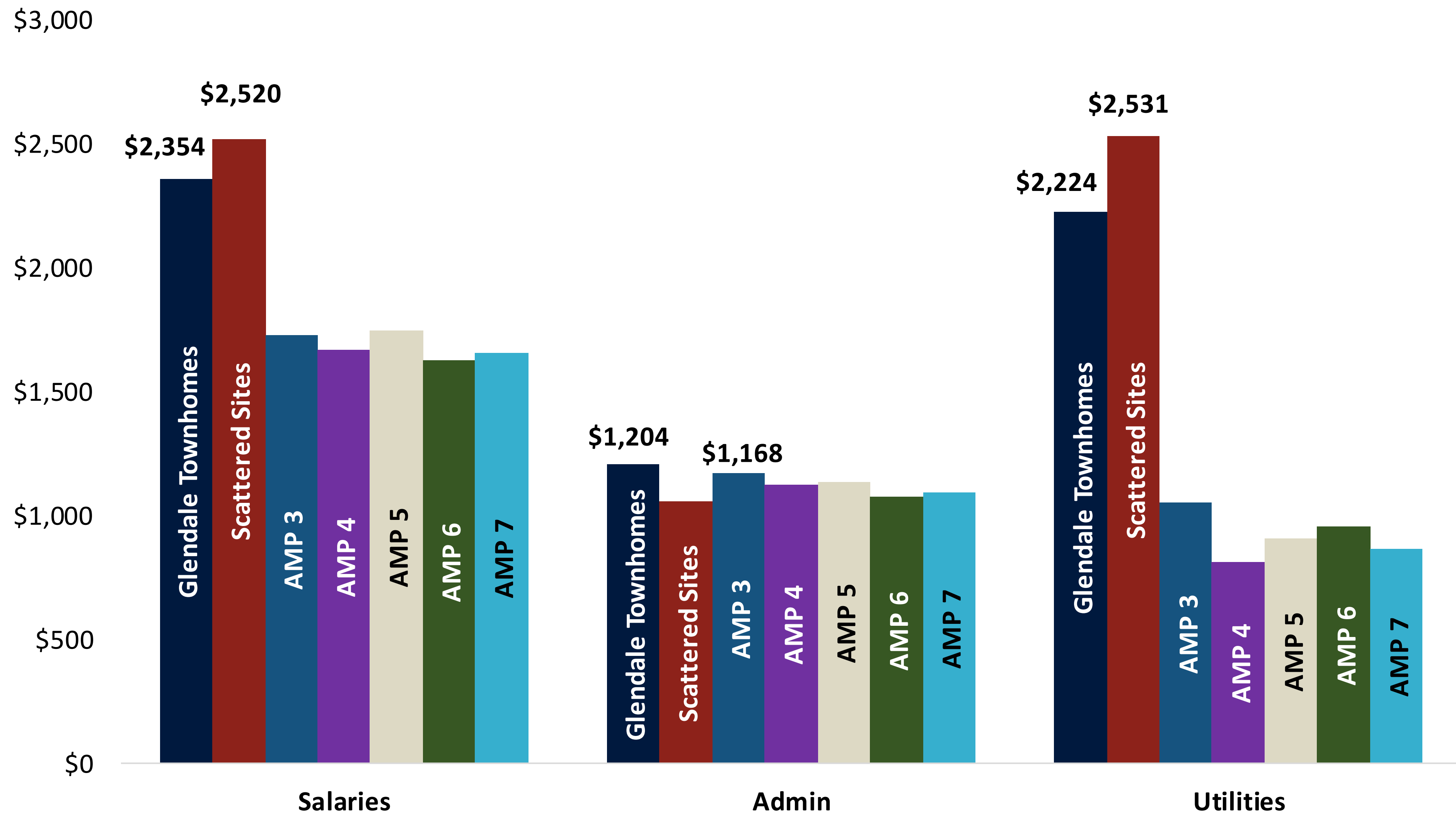
- Congressional appropriations have decreased subsidy to MPHA by 10% since 2014.
- Subsidy received by MPHA has increased by less than 1% in 2015 and less than 2% in 2016, although the subsidy received in 2016 was 90% of eligible subsidy.

Revenue per Unit Trends by AMP



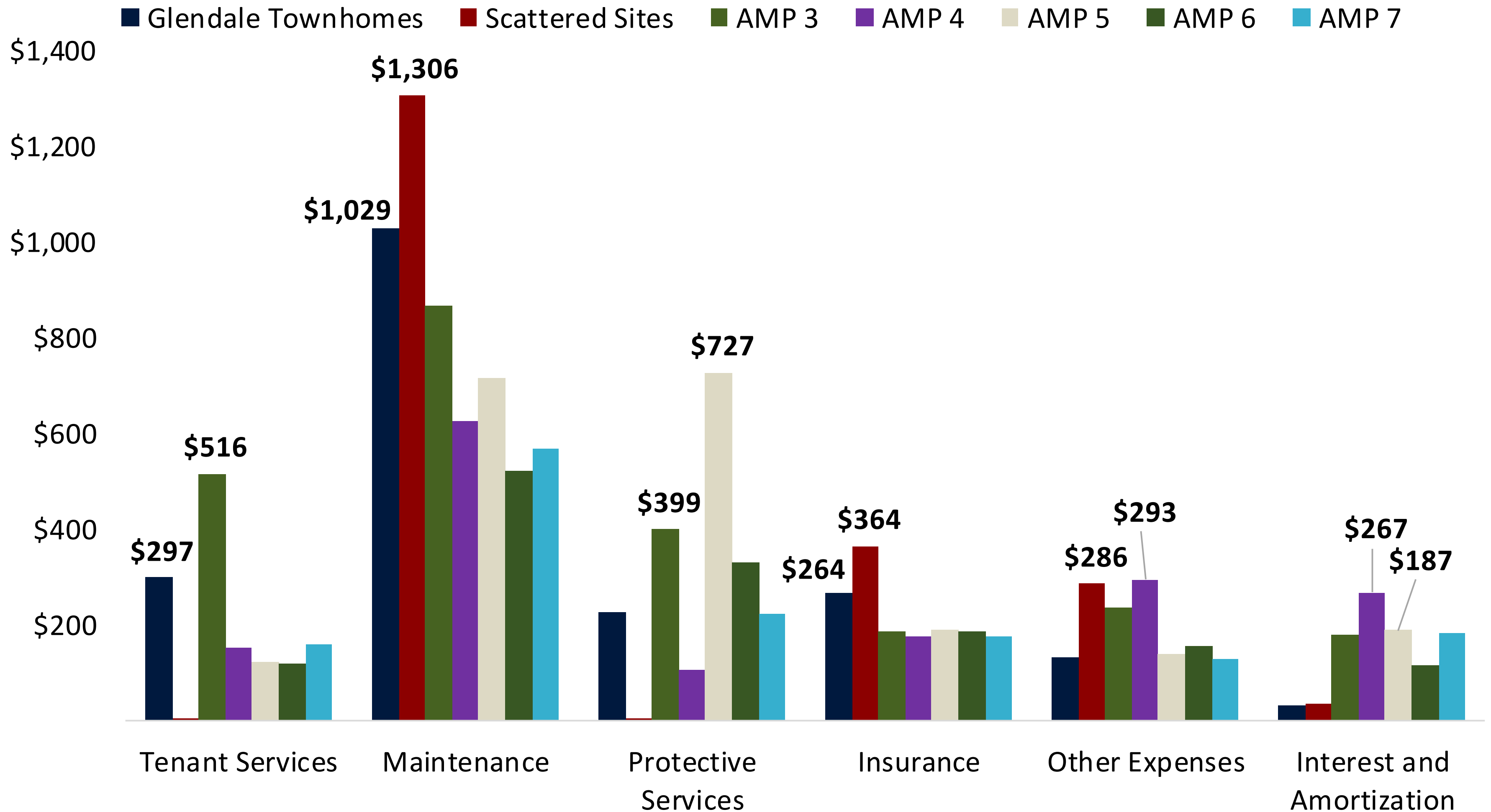
- Glendale Townhomes and the Scattered Sites received higher revenue per unit, specifically from tenant rents.
- AMP 1 and 2 have the highest average income for residents, contributing to their high revenue from tenant income.

Expense per Unit Trends by AMP



Glendale Townhomes and the Scattered Sites have the highest per unit personnel and utility costs.

EXPENSE PER UNIT TRENDS BY AMP



- Scattered Sites and Glendale Townhomes had the highest per unit maintenance costs, as the cost of having individual townhomes and Scattered Sites does not provide the same economy of scale as MPHA high rises.
- Protective services was highest in AMP 5 due to the crime in the surrounding area.
- Tenant services was highest in AMP 3 because of the costs from the local community center.

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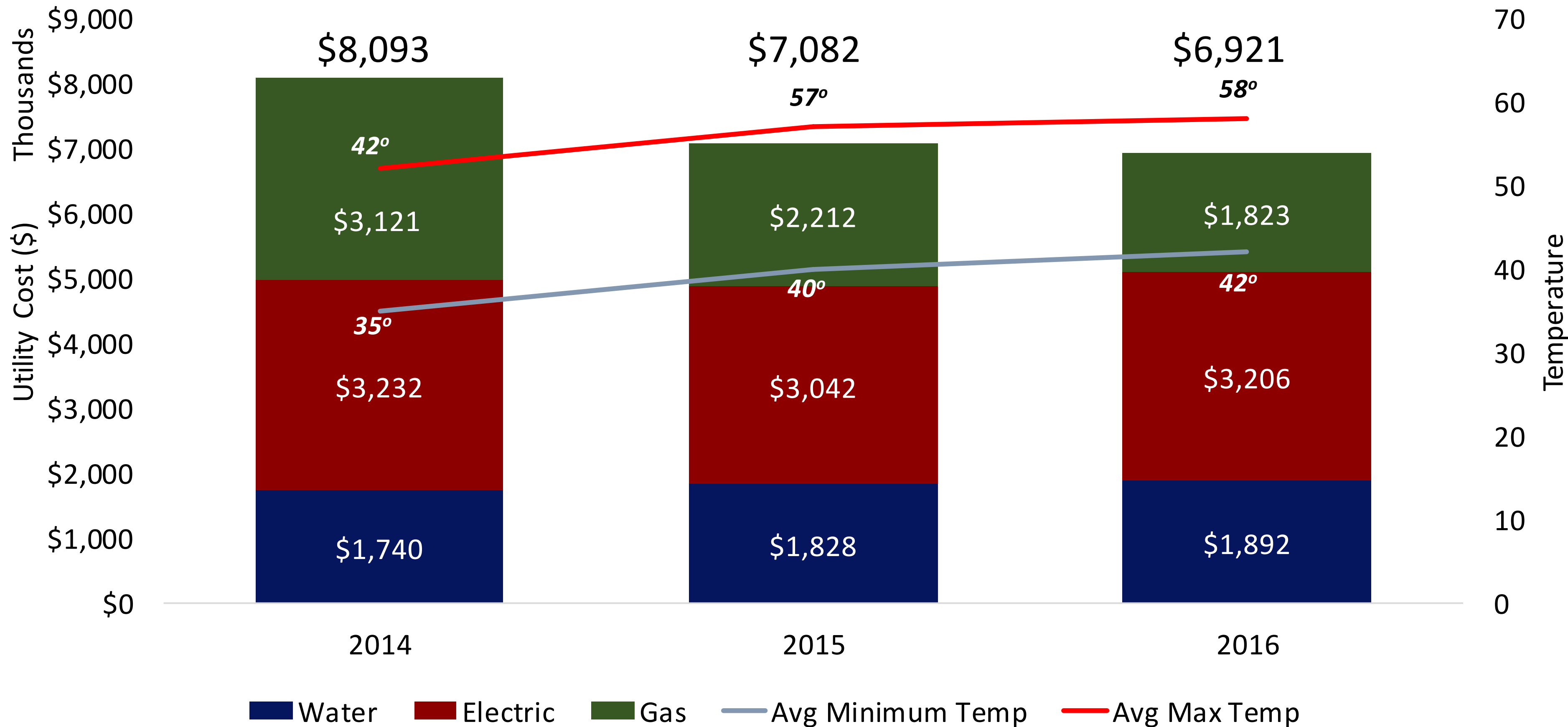
Data Source: MPHA 2016

Impact of Reducing Utility Expenses

Utilities



- Utility costs have decreased over the past three years, with a 14% decrease in the total utility cost.
- Increasing average temperatures over the last three years, along with capital improvements has seen the MPHA utility costs decrease.

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Data Source: Weather.com
MPHA actuals

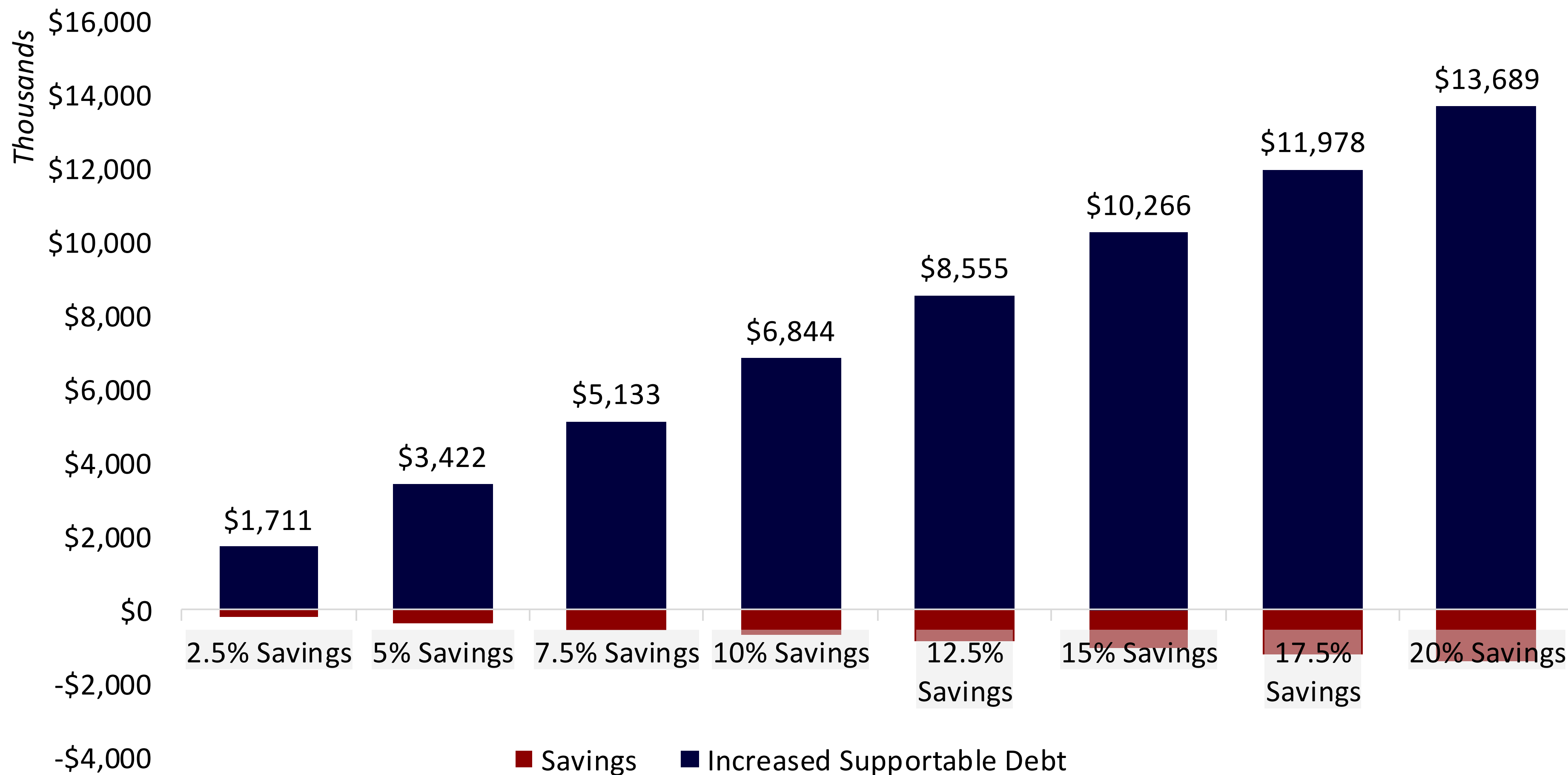
Utilities per Unit – 2016

AMP	Electric	Gas	Water	**Total**
Glendale Townhomes	$931	$552	$742	**$2,224**
Scattered Sites	1,013	721	797	**2,531**
AMP 3	569	248	225	**1,042**
AMP 4	429	185	198	**811**
AMP 5	410	247	245	**902**
AMP 6	407	269	276	**952**
AMP 7	407	231	222	**860**
MPHA Average	**$540**	**$307**	**$319**	**$1,166**

- Townhomes and Scattered Sites had the highest per unit cost in 2016, as high-rise building (AMPs 3-7) benefited from the economy of scale.
- Utilities per unit at AMP 3 were 18% higher than the other high rise apartments, mostly driven by electric costs.

Data Source: MPHA 2016

Potential Utility Savings



- MPHA-wide, improving utility performance can help increase the amount of debt that can be raised, MPHA must change from the current public housing model to retain these savings.
- A 2.5% decrease in MPHA-wide utility costs of $173,000 can potentially lead to an additional $1.7M in supportable debt.

Adjusted Income and Expenses Impact

CSG | advisors

Summary Findings

CSG's analysis of MPHA's operations led to the following summary findings.

Adjusted Income Impact

- MPHA's focus on core services can help reduce expenses and increase supportable debt for future rehabilitation and portfolio transition.
- Removing Protective Services and Tenant Services costs can help increase supportable debt, with AMPs 3, 6, and 7 standing to benefit the most.
- When removing these costs, it is expected, they will be funded through additional funds or partnering organizations that can support MPHA's core mission of providing high quality housing for residents.
- Protective Services and Tenant Services are services that are valued by residents, administrators, and housing advocates. Therefore any change in funding or service will have to be done carefully and with transparency to maintain the current service level and to gain trust with residents and housing advocates.

2016 MPHA NOI and Expense Comparison

Account	AMP 1	AMP 2	AMP 3	AMP 4	AMP 5	AMP 6	AMP 7	Total
Revenue	$1,606,640	$7,428,860	$8,759,126	$5,855,530	$5,478,907	$5,461,059	$5,723,403	$40,313,526
Salaries	$433,220	$1,879,947	$2,319,797	$1,573,308	$1,546,808	$1,454,748	$1,552,734	$10,760,562
Benefits	164,624	768,841	863,074	658,490	619,932	600,884	573,299	4,249,143
Admin Cost	221,583	786,022	1,570,126	1,059,250	1,004,805	960,160	1,019,727	6,621,672
Tenant Services	***$54,735***	***$200***	***$692,985***	***$142,678***	***$107,770***	***$106,561***	***$147,971***	***$1,252,901***
Utilities	409,214	1,888,017	1,407,812	766,142	800,743	853,038	808,902	6,933,868
Maintenance	189,285	974,021	1,164,900	589,859	633,522	465,801	531,955	4,549,343
Protective Services	***$41,509***	***$469***	***$536,754***	***$98,221***	***$644,045***	***$294,317***	***$208,127***	***$1,823,442***
Insurance	48,662	271,833	248,602	166,558	167,337	166,632	163,890	1,233,514
Other Expenses	24,006	213,132	316,838	276,131	122,625	138,210	121,013	1,211,955
Interest and Amortization	5,745	25,286	241,201	251,990	165,930	102,362	171,033	963,547
Total Expense	**$1,592,584**	**$6,807,768**	**$9,362,088**	**$5,582,628**	**$5,813,516**	**$5,142,714**	**$5,298,650**	**$39,599,948**
EPC (Principal)	*7,560*	*33,138*	*315,374*	*329,485*	*216,969*	*133,810*	*223,647*	*1,259,982*
Casualty Loss	*3,940*	*75,733*	*4,916*	*218*	*0*	*0*	*0*	*84,807*
Supportable Debt	**$37,059**	**$7,426,315**	**$0**	**$0**	**$0**	**$2,675,437**	**$2,915,688**	**$13,054,498**

- All AMPs with negative NOI will need to be covered from reserves.
- Supportable debt is calculated based on current year NOI at 1.20 Debt Service Coverage Ratio, 6% interest and 35-year amortization.
- Tenant Services Salaries and Protective Services Salaries were $0 in 2016.

Adjusted Income Impact

Option 1: Remove Tenant Services ($6,678 per Unit)

Removing Tenant Services costs from the properties will reduce MPHA costs by $1.1 million per year, allowing MPHA to raise additional debt and focus more funds on the operation and upkeep of its property. AMP 3 provided the highest potential savings ($692k), however, AMP 7 will provide the highest increase in allowable debt service with the removal of tenant services cost. Tenant Participation Activities (TPA) funds, which account for $131 in HUD subsidy, was removed from the revenue in this analysis, as well as all tenant services expenses. While the TPA funds cannot be removed from MPHA activities, they have removed for the sake of this exercise. Allowable debt in AMP 2 decreased because the excluded TPA revenue ($16k) was more than their excluded tenant service cost ($200). Also removed from this analysis is revenue from HPSSC and Elderly/Disabled Services.

w/o Tenant Services	AMP 1	AMP 2	AMP 3	AMP 4	AMP 5	AMP 6	AMP 7	Total
Revenue	$1,602,558	$7,412,216	$8,531,644	$5,777,400	$5,405,883	$5,387,041	$5,646,396	$39,763,139
Expense	1,537,848	6,807,568	8,669,102	5,439,950	5,705,746	5,036,153	5,150,680	38,347,047
Additional Costs	11,500	108,870	320,290	329,704	216,969	133,810	223,647	1,344,790
NOI	**$53,209**	**$495,778**	**-$457,748**	**$7,747**	**-$516,831**	**$217,078**	**$272,070**	**$71,302**
Allowable Debt Service	**$771,442**	**$7,187,906**	**$0**	**$112,317**	**$0**	**$3,147,253**	**$3,944,537**	**$15,163,455**
Change in Debt Service	**$734,383**	**-$238,409**	**$0**	**$112,317**	**$0**	**$471,817**	**$1,028,849**	**$2,108,957**

Option 2: Remove Protective Services ($6,591 per Unit)

Removal of protective services costs to the property will reduce the overall cost to MPHA by $1.8 million per year. AMP 5 provided the highest potential cost savings, however, AMP 6 provided the highest amount of increase in supportable debt, with $4.2 million increase in potential future debt.

w/o Protective Services	AMP 1	AMP 2	AMP 3	AMP 4	AMP 5	AMP 6	AMP 7	Total
Revenue	1,606,640	7,476,530	8,759,126	5,855,530	5,478,907	5,462,659	5,723,403	40,362,796
Expense	1,551,075	6,807,299	8,825,334	5,484,408	5,169,471	4,848,397	5,090,523	37,776,506
Additional Costs	11,500	108,870	320,290	329,704	216,969	133,810	223,647	1,344,790
NOI	**$44,065**	**$560,361**	**-$386,498**	**$41,419**	**$92,468**	**$480,453**	**$409,233**	**$1,241,500**
Allowable Debt Service	**$638,860**	**$8,124,247**	**$0**	**$600,506**	**$1,340,618**	**$6,965,722**	**$5,933,164**	**$23,603,116**
Change in Debt Service	**$601,801**	**$6,806**	**$0**	**$600,506**	**$1,340,618**	**$4,267,087**	**$3,017,476**	**$9,834,294**

Adjusted Income Impact (continued)

Option 3: Remove Tenant Services and Protective Services ($6,379 per Unit)

Removal of both tenant services (except TPA funds) and protective services with save MPHA $3.2 million every year, with the largest potential savings in AMP 3, with $1.2 million reduction in annual cost. AMP 6 stands to benefit the most from the reduction in tenant services and protective services costs, with an increase in $7.4 million in allowable debt.

w/o TS & PS	AMP 1	AMP 2	AMP 3	AMP 4	AMP 5	AMP 6	AMP 7	Total
Revenue	1,602,558	7,412,216	8,531,644	5,777,400	5,405,883	5,387,041	5,646,396	39,763,139
Expense	1,496,340	6,807,099	8,132,349	5,341,729	5,061,701	4,741,835	4,942,553	36,523,606
Additional Costs	11,500	108,870	320,290	329,704	216,969	133,810	223,647	1,344,790
NOI	**$94,718**	**$496,247**	**$79,005**	**$105,968**	**$127,214**	**$511,396**	**$480,197**	**$1,894,744**
Allowable Debt Service	**$1,373,243**	**$7,194,713**	**$1,145,439**	**$1,536,344**	**$1,844,373**	**$7,414,340**	**$6,962,013**	**$27,470,465**
Change in Debt Service	**$1,336,184**	**-$231,603**	**$1,145,439**	**$1,536,344**	**$1,844,373**	**$4,738,903**	**$4,046,325**	**$14,415,966**

Option 4: Reduce overall expenses 15% ($5,897 per Unit)

HUD guidelines allow an expected reduction in expenses of 15%. If MPHA was able to reduce their overall expenses by 15% (not including casualty loss and EPC), they will be able to increase the allowable debt, with AMP 2 seeing the largest

15% Reduction	AMP 1	AMP 2	AMP 3	AMP 4	AMP 5	AMP 6	AMP 7	Total
Revenue	1,606,640	7,476,530	8,759,126	5,855,530	5,478,907	5,462,659	5,723,403	40,362,796
Expense	1,353,696	5,786,603	7,957,774	4,745,234	4,941,488	4,371,307	4,503,853	33,659,956
Additional Costs	11,500	108,870	320,290	329,704	216,969	133,810	223,647	1,344,790
NOI	**$241,444**	**$1,581,056**	**$481,062**	**$780,593**	**$320,450**	**$957,542**	**$995,904**	**$5,358,051**
Allowable Debt Service	**$3,500,509**	**$22,922,546**	**$6,974,548**	**$11,317,226**	**$4,645,963**	**$13,882,685**	**$14,438,859**	**$77,682,337**
Change in Debt Service	**$3,463,451**	**$14,805,105**	**$6,974,548**	**$11,317,226**	**$4,645,963**	**$11,184,050**	**$11,523,171**	**$63,913,514**

Next Steps

Recommended Key Performance Indicators

Throughout 2017, MPHA worked with Ameresco to establish key performance indicators (KPIs) to evaluate: the operational health and performance of each site, financing opportunities and market needs and trends, as well as the condition and location of each site. These KPIs will assist MPHA in developing a portfolio implementation strategy.

Operational Health/Property Performance	
Turnover rate (days vacant)	Time to turn units
Work orders issued	PHAS/REAC score
Work orders completed	Monthly income-expense ratio
Net Operating Income	Cost per unit per month
Vacancy rate	Energy performance (gas, water, electric consumption)

Financing Opportunities

Leveraging with LIHTC, RAD, others/gap financing needed

Capital Fund investments (in the last 5 years include all sources)

Competitiveness to qualify for sources

Appraised value of land/buildings

Market Needs/Trends

Current resident demographics

Current wait list demographics

Future demographics

Recommended Key Performance Indicators

Physical Health/Property Potential

Capital Needs/FCI (current needs, FCI percentage)
Age of Units
Code/Health Deficiencies
Ability to Increase Density (land to building ratio)

Ability to Add On-Site Services
Security
Ability to Adapt/Age In Place/ADA Units

Location/Neighborhood/Socioeconomic

Proximity to assets (include job centers, child care, schools, recreation/parks, grocery stores, pharmacy, library, cultural)

Access to education (consider including well performing. Also consider Including early education, K-12, GED, college-prep, adult classes (college, vocational, art/music)

Proximity to social services

Access to transit

Safety/crime

Proximity to negative uses (noise, pollution, environmental issues)

Access to health services (include proactive health services-such as programs related to nutrition, exercise, wellness)

Other Areas of Opportunity

Opportunity areas (as defined by HUD)
Partnership opportunities
Investment already occurring in the area (that is relevant, will benefit MPHA residents)

Implementation Strategy

Strategic Plan

- Develop comprehensive portfolio strategy
- Meet with local, regional, state and federal organizations/agencies

Glendale Townhomes

- Further consider programming options
- Procure a Development Partner that designs a program that allows residents in good standing the right to return and secures the necessary sources to make the project financially feasible.

Scattered Sites

- Further explore options to convert units from public housing to vouchers.
- Develop a local revolving loan fund
- Raise local foundations and bank funds, leverage with MPHA reserve funds

High Rise Developments

- Convert units to vouchers
- Request that the City of Minneapolis set aside volume bond cap for senior public housing preservation projects

Overall

- Address operations savings strategies proposed by CSG
- Research and identify potential energy performance opportunities