

# **Asset Management Plan**

## **Ohio River Homes I Limited Partnership**



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**Ohio River Homes I  
Asset Management Plan  
Scattered Site Lease Purchase**

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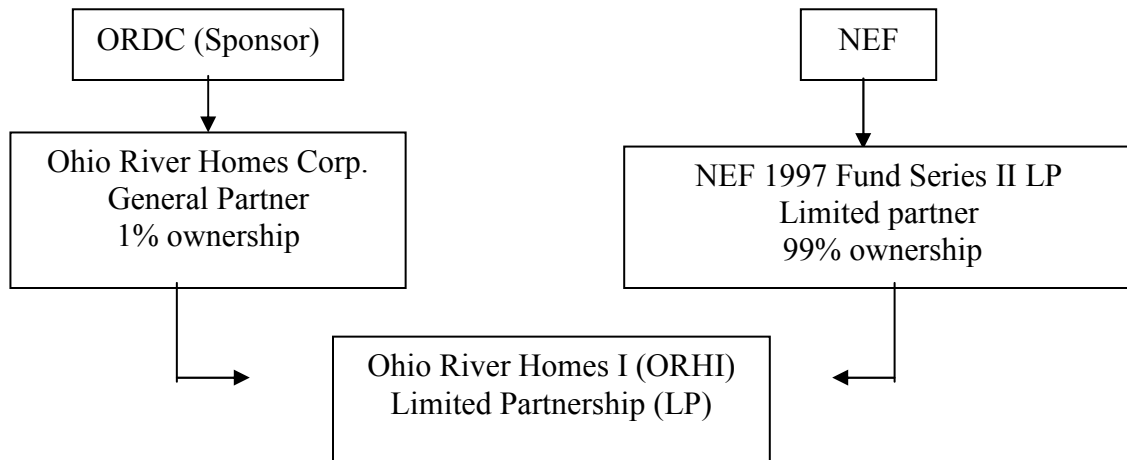
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## I. Introduction

The Ohio River Homes I was created in 1998 using an affordable housing tool known as the Low Income Housing Tax Credit program (LIHTC), or Section 42 program. Section 42 refers to the portion of the Federal Internal Revenue code that defines the LIHTC program. This program allows investors in specialized equity funds to take advantage of tax losses generated by projects such as Ohio River Homes I. These investors are generally larger corporations who invest in funds established by an equity syndicator. There are many syndicators in the United States who invest in LIHTC projects. The investor for Ohio River Homes I is National Equity Fund (NEF), an affiliate of Local Initiatives Support Corporation (LISC).

The LIHTC program is very complex. For purposes of introduction, a very general outline of the ownership structure of a project is included here. Generally, each LIHTC project is required to have a nonprofit sponsor Ohio River Development Corporation (ORDC) is the nonprofit sponsor for the Ohio River Homes I project. In order to legally establish the framework for the tax credit program, a limited partnership called Ohio River Homes I Limited Partnership was established between the equity syndicator (NEF), the limited partner in the transaction, and a subsidiary of ORDC (the sponsor). ORDC established a subsidiary (related company) called Ohio River Homes Corporation, who acts as the General Partner for the partnership. NEF owns 99% of the partnership and Ohio River Homes Corp. owns 1% of the Ohio River Homes I Limited Partnership. Therefore, for purposes of this plan, ORDC is viewed as the “owner” of the project.



One other important partner in the LIHTC program is the Ohio Housing Finance Agency (OHFA), a state agency that supports affordable housing development. OHFA is the agency that administers the tax credit program, acting as an agent for the IRS. OHFA also monitors the compliance requirements for the program and provides various types of financing for LIHTC projects.

## **I. Goals and Objectives of ORDC and project**

Ohio River Development Corporation (ORDC) is the nonprofit sponsor for Ohio River Homes I Limited Partnership (ORHI) project. ORHI consists of 49 scattered site single family homes, with three and four bedrooms, located throughout the Ohio River target area. ORDC established a subsidiary (related company) called Ohio River Homes Corporation that owns 1% of the ORHI Limited Partnership. Therefore, for purposes of this plan, ORDC is viewed as the “owner” of the project.

ORDC’s mission is to initiate and sustain collaborative initiatives that stimulate investments in their service area to enable residents to live with sufficient means in a safe, stable environment that is supportive of the social and economic needs and interests of families and the stimulation of civic involvement in local revitalization efforts.

The ORDC vision is: “that collaborative efforts sensitive to the collective needs and interests of our constituents will result in the investment of internal and external resources that will result in the sustained revitalization of our service area via residential and economic initiatives that will make our service area a safe and attractive location in which to live, work, and raise families.”

The goals for Ohio River Homes I are to:

- 1) Lease units to people with income levels less than 60% of Lucas County area median income and rent levels affordable to people earning 41% of less of the area median income.
- 2) physically maintain the assets in the partnership;
- 3) maintain lease obligations and compliance requirements;
- 4) maintain fiscal control over operations and partnership disposition strategy, to include identifying financial obligations of holding property to end of partnership and what it means financially to ORDC;
- 5) create organizational philosophy regarding the Lease Purchase Model of affordable housing on Board level
- 6) create exit strategy that reflects this philosophy upon termination of the partnership in 2014.

### **III. Administrative Plan**

#### *Owner's Responsibilities*

In very broad terms, the responsibilities of ORDC as the owner of the real estate in this partnership are to ensure the long term financial and physical well being of the real estate. The following list points out ORDC's general responsibilities as owner of this project.

- ☐ Set goals and objectives (purpose) for owning property
- ☐ Ensure adequate cash flow to meet all debt repayment and special program requirements (i.e., LIHTC, HOME funds)
- ☐ Self-manage or engage third party management to oversee operation of real estate
- ☐ Ensure real property is maintained adequately
- ☐ Ensure safety and security of tenants
- ☐ Monitor financial performance at least annually
- ☐ Establish disposition/exit strategy

It's critical that ORDC understands that its role as owner does not negate its responsibilities when hiring a third party manager to oversee the property. The Asset Manager can provide valuable oversight as the owner's representative for the project.

#### *Management and Supervision*

The Executive Director of Ohio River Development Corporation supervises the Asset Manager. The Asset Manager supervises any ORDC Property Management staff or a hired third party property management firm.

Each year, the Asset Manager will review the performance of the property management staff and third party firm. If the property management function were moved "in house", the evaluation of a Ohio River Property Management staff would follow the policies in place for the organization.

Century is the property manager of the 49 units in ORHI under a year to year management agreement, and in this capacity is responsible for leasing the homes, under ORDC's direction, to tenants who meet the project criteria.

In reviewing the performance of a third party firm, the following areas should be evaluated: how well goals of owner were met, performance of property manager, OHFA/Section 42 compliance and record keeping, data collection, reporting and meeting performance standards. This is described in more detail in the "checklist" contained in Section IV, Property Management.

#### *Reporting and Communication*

The Asset Manager should devise a reporting strategy with Century's property management staff to ensure performance of the project is monitored on a regular basis. In addition, the Asset Manager should ensure that all reports are being completed and submitted in a timely fashion.

At minimum, monthly meetings should be held, to include Century's property manager directly responsible for ORHI and ORDC's Asset Manager. At these meetings, property management reports should be reviewed. These are as follows:

- ☐ Income/expense with budget to actual comparison
- ☐ Vacancy report
- ☐ Unit turnover
- ☐ Summary of Maintenance Activities
- ☐ Rent delinquencies/Accounts Receivable-Tenant
- ☐ Rent Roll with status of payments
- ☐ Third party firm narrative reports

In addition to regular "property status" meetings, another meeting should be scheduled for the annual review and/or planning meeting for the coming fiscal year.

At least once per year, senior staff of Century & Co. and ORDC should participate in a project review.

The Asset Manager is responsible for ensuring that investor reports outlined above are prepared and submitted, and ensuring the timely completion of financial statements and audits.

In addition to the above, a schedule of funder and Section 42 tax credit compliance activities should be planned for each year. Each year, OHFA requires that tenants income and other information be verified and "recertified" to be sure they are eligible to remain tenants under the low income housing tax credit program. While this should be the responsibility of the property management firm, the Owner is ultimately responsible for making sure this is completed. As an oversight duty, the Asset Manager should review the tenant files each year for completeness based on OHFA requirements.

### Tenant Communication

ORDC should create a plan that outlines regular communication with its residents. The plan should be written and reviewed at least every two years. This can be an effective tool in creating a relationship between the resident and the project owner monitoring building conditions, and even getting a perspective on the third party manager. Examples of communication plans might include a resident newsletter, "special events" for tenants around holidays, etc., social service programs for tenants in a wide range of areas such as credit counseling or referral to appropriate services. The communication plan should not take the place of interaction between the property manager and a resident.

The creation of a resident handbook should be considered for this scattered site project so that all pertinent information regarding tenant issues, communication and other conditions of the lease purchase program are outlined. The handbook would be distributed to a resident when a units is being leased.

The Asset Manager should monitor resident satisfaction on a regular basis. This can take the form of an annual written survey where residents send back responses to questions or a more

personal, “face to face” survey may be conducted. In many instances, this can be made a responsibility of the third party firm. In other cases, the Owner may want to conduct these surveys as a method to keep current on what is happening with the project

The Asset Manager is *NOT* the property manager and should not accept rents or other payments on behalf of a tenant except in cases of emergency (i.e., property management firm closes doors unexpectedly, etc.) All tenant communications related to rent collection and eviction should be handled by the property manager first. In the event a dispute cannot be resolved, the Asset Manager may decide to intervene on behalf of ORDC.

Disputes should be resolved in accordance with the grievance policy outlined in Century & Co.’s Management Plan. If disputes still can’t be resolved, then Ohio River Development Corporation’s grievance policy, as follows, would apply.

In case of unresolved conflicts, clients can submit a written grievance to ORDC. ORDC will review such cases to ascertain facts related to the nature of the conflict. If clarification of such facts fails to resolve such concerns, a conference will be held with involved parties in an effort to reach an amicable solution.

If an amicable solution is not reached, ORDC will confer with involved parties to reach a settlement of concerns in accordance with program guidelines or relevant statutes.

If the matter is deemed to be serious or necessitates outside intervention, ORDC will seek outside assistance to resolve or mediate such conflicts in accordance with law. Matters that warrant the retention of legal counsel will be reviewed by the ORDC Board of Trustees before referral. Written records related to the review and outcome of filed grievances will be maintained by ORDC.

#### **IV. Marketing Strategy**

Ohio River Homes I is a 49 unit scattered site single family project located in the Ohio River area of Red City, Ohio. There are 4 three bedroom units and 5 four bedroom units that were rehabilitated as a part of this project. 14 three bedroom units and 25 four bedroom units were newly constructed in 1999. Each house has carpeting, garages, etc. **Need more detail on amenities**

The target population for residential units in this project are single heads of household with children or couples with children who are low income and in need of affordable housing.

The lease purchase option may be considered an enticement to being a tenant in these units because of the opportunity to become a home owner after the partnership has run its course. This is particularly appealing to people who are unable to borrow or have lower income levels.

## V. Property Management

ORHI is managed by Century & Co. under an agreement that renews automatically from year to year after October 14, 1998. The Property Management Agreement and Management Plan are contained in Appendix A of this document. The following areas are addressed in the Agreement:

- Term of agreement and renewal conditions
- General Agent responsibilities
- Banking relationship \*
- Financial Management Reporting that includes:
  - ◆ Monthly statement of Income and receivables
  - ◆ Rent roll and Delinquency tracking
  - ◆ Disbursements Summary
  - ◆ Narrative of unusual incidents, emergencies, accidents and claims
- Compensation and other fees to be paid
- Indemnity, insurance and bonding if applicable
- Termination clause
- Assignability conditions

\* Needs clarification if ORDC has preferences for a bank due to loan agreements, etc.

In addition to the Property Management Agreement, Century & Co. prepared a Management Plan that contains the following sections.

- Owner's Relationship to Management Agent
  - ◆ Outlines Owner and Agent responsibilities
  - ◆ Management Fee description
  - ◆ Collaborative activities
- Anti-discrimination Policy
- Personnel Policies and Staffing arrangement
- Marketing Plan
- Resident Selection Process
- Rent Collection Policy
- Lease Enforcement
- Transfers and sublets
- Move-Outs
- Termination of Leases and Eviction Policy
- Maintenance Plan
- Grievance Procedures
- Management Tenant Relations
  - Owner and Agent collaboration
  - Agent to conduct seasonal focus groups to obtain resident feedback
- Right of First Refusal
  - Outlines how tenants can become home owners at end of lease period. In addition to

the Management Plan, the agreement between Century & Co. and ORDC also addresses the following:

The following information *is not* included in the Agreement or Management Plan. The Asset Manager should clarify the role of the Agent for these specific functions and plans.

- Organizational structure of the property management firm
  - ◆ Organizational chart
  - ◆ Specific description on how financial reporting will be done (Internal controls, who is responsible, systems for doing so, etc.)
  - ◆ Resumes of company principals and individuals directly responsible for managing the property
- Maintenance Plan
  - ◆ Details on Work Order system and tracking
  - ◆ Acquiring, maintaining and controlling materials and supplies (ORDC does not want to be “sharing” supplies with other Agent clients)
- Safety and Security Plan
- Emergency Procedures plan that aims to protect the lives of residents, guests and employees and to protect the owner’s investment from further damage in the event of a natural or man-made disaster.
- Evacuation Plan for safely guiding resident out of property in an emergency and possibly providing temporary housing if needed.

Each year, ORDC should conduct a review of the performance of Century & Co. as a management company. This review should cover how well goals of owner were met, performance of property manager, compliance, reporting and meeting performance standards. A checklist of items for this review is contained on the following page. The Asset Manager should review the Management Plan with Century as a part of this process to ensure the plan is being followed.

	<i>Using categories below, detail performance level using specific examples</i>		
<b>Third Party Property Management Evaluation Criteria</b>	Did Not Meet	Met Basic Requirements	Exceeded Expectations
<b>Goals and Objectives</b>			
Did the management firm meet the goals and objectives established for this property?			
<b>Property Management Staff</b>			
Did assigned Property Manager(s) respond to needs of Owner?			
Was Property Manager(s) responsive to needs of tenants?			
<b>Section 42 Compliance</b>			
Tenant Recertification completed?			
OHFA/Sec. 42 compliance reports submitted by April 1?			
Tenant files and recertification data maintained in proper fashion?			
City reports submitted as required?			
Any 8823s filed?			
<b>Data Collection</b>			
Work orders prepared/submitted?			
Inspection reports prepared/submitted?			
Incident reports prepared/submitted, if applicable?			
Maintenance Inspections completed as agreed			
<b>Reporting</b>			
Monthly income/expense with budget to actual comparison			
Vacancy report			
Unit turnover			

Summary of Maintenance Activities			
Rent delinquencies/Accounts Receivable			
Tenant Rent Roll with status of payments			
Narrative reports			
Annual operating budget			
<b>Performance Standards</b>			
Rent Collection (92-95%)			
Occupancy Rate (95%)			
Eviction started within 3 days			
Vacancy Turnover (15 days)			
Operating Expense/Unit/Year (< \$3,000)			

## VI. Compliance

In order to meet the various requirements for Section 42 tax credits and funding, ORHI has to meet criteria for leasing to individuals with restricted incomes, maintain files for specific periods of time and other conditions. These are described in this section.

### Income and Rent Restrictions

ORHI consists of 49 units of single family houses, scattered throughout the Ohio River target area. Rent restriction require that 70% of the units (34) in the project must be have rent levels affordable to persons or families with incomes that are 40% or below the HUD adjusted gross median income (AMI) for Lucas County, adjusted for family size. The remaining 30% (or 15 units) must be affordable to persons or families with incomes that are 41% or below the HUD area median income, adjusted for family size. Rent levels should be based on rates that are “affordable” to these individuals, yet take into consideration increases in operating costs as well.

In addition to the rent restrictions, there are income restrictions as follows: 61% (or 30 units) must be leased to households with incomes at or below 50% of AMI and 39% (or 19 units) must be leased to households with incomes at or below 60% of AMI.

There is a restrictive covenant filed with the County Recorder on this property that limits the use of the 49 single family units to “affordable” housing until at least 2014. There is also an *additional* affordability period of 15 years, called the extended use period. In 2015, these units may be sold to a lease purchaser who qualifies under the income restrictions described above. At the time of sale, the restrictive covenant and extended use period restrictions can be removed from the specific property. In the event a property is NOT sold to a lease purchaser, the unit will remain under these covenants until 2029. Removing the covenant is discussed in more detail in Section X, Exit Strategy.

HUD publishes annual median income statistics and utility allowances that are used to calculate rent structures for this project. These are updated annually and are required by OHFA to be maintained in the files for the Ohio River Homes I for the life of the partnership.

It is important to ensure that all property management staff and ORDC’s Asset Manager be trained and familiar with Fair Housing Regulations. These are very important rules that must be followed when leasing a unit and interacting with a tenant. Training is available on this subject from fair housing groups, trade associations, etc.

The following chart summarizes the rent and income restrictions for the ORHI .

<b>Rent Restrictions by funding source</b>	<b>Time Period</b>	<b>Income Level</b>	<b>Rent Restriction</b>	<b>Tenant Files</b>
LIHTC/Section 42	1/1/99-12/31/38 unless units are sold to lease purchaser at end of 15 year holding period (2014)	39% of units (19) must be leased at 60% of median or below; 61% of units (30) must be leased at 50% of median or below	70% of units at level affordable to persons at or below 40% of median gross income adjusted for family size; 30% of units to persons with incomes at or below 41% % of median gross income adjusted for family size	Original tenant files maintained 21 years from initial lease-up
State & City HOME Funds	20 years on new construction 15 years on rehab			20 years on new construction, 15 years for rehab

### Initial Tenant Files

Initial tenant files are to be maintained for the life of the partnership. These files should be maintained in a safe area.

### Recertification

In order to comply with federal (IRS) and State (OHFA) requirements for low income housing tax credits, tenants must meet the income criteria described above and must agree to have income, employment and asset status verified on an annual basis. This is generally the responsibility of the Property Manager/ Third Party Management Firm. Recertification must be completed by April 1 of each year. The Asset Manager must review the tenant files each year to ensure the appropriate documents and information are being collected and maintained.

Requirements for tenant recertification include:

- Verification of total household income, which includes each family member over 18, including all wages and/or salaries, pensions, social security payments, child care payments, alimony, public assistance, income producing assets or other sources of income
- Sufficient documentation of income from above in tenant files
- Identification of tenants who may have become over-income during their tenure
- Verification of conformance of rents to Section 42 tax credit and any state program guidelines
- Organized and easily understandable information in tenant files
- Owner maintains Annual Compliance reports in central file to track units by tenant
- Collection and review Project Partnership's annual submission of its Annual Certification and/or its Certified Rent Roll to OHFA by April 1 of each year

OHFA monitors this process and will conduct compliance review visits to ensure files are in proper order. If they find that a project has not been maintained properly, they can issue a Form 8823 that lists deficiencies. The 8823 deficiencies are reported to IRS and can jeopardize the tax credit status of a project if not resolved in a timely manner.

For further details on recertification, contact Manager of Tax Credit Compliance at OHFA, telephone 614-466-7970. Many forms are available on OHFA's web site:  
<http://www.odod.state.oh.us/ohfa/rental/compmom/default.htm>

## VII. Site Inspections and Maintenance

Quarterly inspections of the project should be conducted by property management staff to include at least the following:

- General tenant up keep of property (i.e., grass cut, trash put out for pick up, etc.)
- Seasonally, check gutters and other exterior items that can be affected by weather related events.
- Vacant units, if any
- Sampling of occupied units
- Roofs

If a tenant gives notice of intent to move, inspections should also be conducted prior to move out to be sure there are no major problems with the unit. In addition, “problem tenants” should be monitored more frequently to minimize property damage, especially if they vacate without notice.

The Asset Manager should accompany Property Management staff on at least one inspections per year.

Regular “consultations” with property manager and maintenance staff is recommended to assure timeliness of inspections and implementation of maintenance plan(s).

The Asset Manager should obtain a written report detailing observations, any issues to be addressed, recommendations for correcting or resolving problems and a timeline for resolution. This should be contained in the monthly reports submitted by Century.

### Maintenance

There are six types of maintenance that must be done to keep buildings in shape over the life of the partnership. These are described in the chart that follows. A written plan should be prepared that addresses policies and procedures for doing maintenance in all six areas. Since a third party firm manages ORHI, they should prepare a plan that is reviewed by the Asset Manager. In addition, regular maintenance reports should be submitted to the Asset Manager as part of the monthly reporting process. Review of performance should be incorporated into the annual review of the property management function.

It is also important to note that maintenance in a scattered site project such as this can be time consuming and more challenging than a multifamily building. This is primarily because the properties are spread out over a larger area and each unit may have unique maintenance challenges. Careful attention to a defined maintenance plan can keep small issues from becoming major. In addition, as a part of a tenant’s lease contract, they should be required to perform some level of routine maintenance.

<b>Type of</b>	<b>Definition</b>
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<b>Maintenance</b>	
Preventive	Regular upkeep and inspections of property and equipment. Examples: Annual furnace checks, elevator inspections, gutter cleaning
Corrective	Maintenance that is put off due to owner preference, budget constraints, weather, etc. Examples: Small roof leak in winter, replacing carpeting in units
Routine	Custodial, such as basic grounds care and responding to resident requests. Examples: Sweeping common areas, securing main entry to building
Deferred	Repairs to building and equipment that result from normal wear and tear, or even faulty preventive maintenance. Examples: Toilet leaking, prong of cord breaks off in electric outlet, storm windows.
Emergency	Non-scheduled repair that must be performed immediately because it endangers life and/or property. Examples: Water pipe breakage, inoperable telephone in elevator.
Cosmetic	Repairs that don't affect the function of an item, but make it more appealing. Examples: Wallpaper versus paint, refrigerator with two doors instead of one.

Construction warranties should be monitored to assure all guarantees have been met. Several months before the warranties are due to expire, inspection on the warranted component should be conducted and any issues should be brought to the attention of the appropriate party. A tickler system should be created to monitor warranties, expiration dates and tenant problems.

A copy of the OHFA Maintenance Inspection Form is contained in Appendix B. This form may be useful in monitoring this project for minimal guidelines.

## VIII. Financial

This section summarizes the following financial data for the Ohio River Homes I project:

- ✓ Long term Income and Expense projections
- ✓ Annual Tax Credits
- ✓ Equity Payments /OHFA Bridge Loan
- ✓ Reserve Requirements
- ✓ Capital LP Account Analysis
- ✓ Exit Tax Analysis
- ✓ Guaranties
- ✓ Performance Standards

### Long Term Projections

Long term projections for ORHI can be found following the narrative of this section.

### Annual Tax Credits

ORDC is obligated to deliver \$502,538 in tax credits each year until 2010. This is in exchange for NEF's equity investment in the project. The tax credits are calculated based on the project's operating performance and entered on tax return form 8609 and Schedule K. ORDC's auditor should be able to provide advice on delivery of tax credits.

### Equity Payments and OHFA Bridge Loan

Each year until 2007, the limited partner/equity syndicator, NEF will make an equity payment to OHFA that is then used to repay the OHFA bridge loan. Typically, OHFA will send a notice to the sponsor, in this case ORDC. The Asset Manager should be aware of this and may want to verify with NEF that all payments will be made in a timely manner.

Year	NEF Equity Payout	Bridge Loan
2003	\$200,669	\$200,669
2004	\$200,669	\$200,669
2005	\$200,669	\$200,669
2006	\$200,669	\$200,669
2007	\$200,669	\$200,669

### Reserve Requirements

According to the Partnership Agreement, the following reserve requirements must be met:

Operating Reserves: Initial funding of \$\_\_\_\_\_; thereafter, 1% of Effective Gross Rent Collections shall be contributed to this fund until a maximum fund balance of \$\_\_\_\_ reached.

Replacement Reserves: \$250 per unit per year, or flat amount of \$12,250 each year of Net Operating Income Less allocation for real estate taxes and insurance escrow if applicable, until a

balance requirement of \$ \_\_\_\_\_ is reached. Need to see Exhibit A of p-ship agr. to confirm these—  
not attached to our docs.

### LP Capital Account & Exit Tax

In year 15, the units in ORHI will be sold to ORDC for outstanding debt plus partnership exit taxes. The lease purchase option prices will be established in part using these costs. Since ORDC's subsidiary, Ohio River Homes Corp., is responsible for paying exit taxes, it's in ORDC's best interest to minimize them. This is accomplished by maintaining the LP Capital account at or above a "zero" balance. NEF has underwritten this project with the expectation that the LP account will become negative in 2014. This should be monitored by ORHI's auditor and NEF. A projection of exit taxes in Year 15 should be prepared and reviewed on an annual basis for disposition planning purposes.

### Guaranties

There are two guaranties that remain to be met:

Guaranty Against Reduced Tax Benefits so the equity investor can take advantage of the tax credits and

Guaranty of Partnership Management that requires that the managing General Partner, Ohio River Homes Corporation, will manage project with fiscal and managerial integrity.

### Performance Standards

The following pages contain a summary of minimum performance standards that should be measured for this project. A detailed example of how to calculate these ratios can be found in Appendix G. In addition, there are classes offered through Neighborhood Reinvestment Training Institutes and other resources available through LISC that can provide more in depth information in this area.

PERFORMANCE STANDARD GOALS	BEST PRACTICE
<u>FINANCIAL</u>	
Rent Collection	95% or more of current month rent roll collected by 6th day of month.
Occupancy Rate	95% average for year
Turnover Time	Average prep time to make units ready for re-renting shall be 6 working days.
	Average time to re-lease vacated units shall be 12 working days.
<u>Funding of Reserves</u> <i>Replacement</i> <i>Operating</i>	Capital Reserve: 5-20% of total costs 20-50% of operating budget
<u>MAINTENANCE</u>	
Inspections: <i>Exterior &amp; common area inspections</i>  <i>Interior Unit</i>	As described in Section VI; by property manager at quarterly; asset manager twice yearly  By property management at least quarterly; asset manager yearly.
Building Appearance	Property shall maintain “curb appeal” which is superior to others in neighborhood.  Litter to be picked up daily.
Preventive Maintenance	90% of preventive maintenance inspections and servicing completed as scheduled; remaining 10% within 30 days of schedule.
Resident Maintenance	Calls accepted 24 hours per day Work Orders processed within 24 hours after receipt
Completion Standards <ul style="list-style-type: none"> <li>◆ <i>Emergency Requests</i></li> <li>◆ <i>Routine Requests</i></li> <li>◆ <i>Custodial Maint</i></li> <li>◆ <i>Preventive Maint</i></li> </ul>	Within 24 hours 3-7 business days Daily 2 weeks
<u>REPORTS</u>	

Financial Reports	<p>Monthly financial reports produced, at minimum:</p> <p>Reconciled Monthly financial statements, prepared on accrual basis, to include:</p> <ul style="list-style-type: none"> <li>◆ Income Statement with budget to actual comparison</li> <li>◆ Balance Sheet</li> <li>◆ Statement of Cash Flow</li> </ul> <p>Vacancy report  Unit turnover  Summary of Maintenance Activities  Rent delinquencies/Accounts Receivable-Tenant  Rent Roll with status of payments  Third party firms--narrative reports</p>
Operating Budgets	<p>Annual Operating Budget</p> <ul style="list-style-type: none"> <li>➤ Sufficient Income to cover all expenses</li> <li>➤ Operating Expense/Unit/Year &lt; \$3,000</li> <li>➤ Operating and Replacement Reserve Allocations based on Partnership Agreement</li> <li>➤ Final operating budget approved in December preceding new year.</li> </ul> <p>Year End Tax Return completed in timely manner</p> <p>Capital Needs Assessment conducted and funded</p>
Audit	<ul style="list-style-type: none"> <li>➤ Completed in timely manner</li> <li>➤ Due to NEF by February 16<sup>th</sup> following year end.</li> </ul>
Investor Reports	<ul style="list-style-type: none"> <li>➤ Submitted on time</li> <li>➤ Quarterly Reports due to NEF by 15<sup>th</sup> of month after end of quarter</li> </ul>
<i><u>OTHER</u></i>	
Asset Management and Operations Plan	Written and updated at least every two years.
Evictions	Proceed after 3 day notices
Tenant Satisfaction	Residents surveyed once a year

## IX. Risk Management

In order to assess potential risks associated with the project, the Asset Manager, in conjunction with the property management firm, should ask these questions annually.

<u>Questions/Issues</u>	<u>Yes/No</u> <u>Comments</u>
☛ Are there hazardous or defective conditions within units, resulting from poor maintenance that could cause injury to residents, especially to children?	
☛ Are there hazardous or defective conditions in common areas resulting from poor maintenance that could cause injury to residents, especially to children, or damage the property?	
☛ Have any hazardous or defective conditions been reported, but not been responded to by management?	
☛ Are there conditions on the property which compromise security for residents or management staff?	
☛ Are there any foreseeable criminal acts that could be committed on or about the property for which acts of reasonable and prudent precautions could be taken by management to prevent?	
☛ Are staff properly trained in safety techniques to avoid work-related injuries to themselves or others? Have they been given proper equipment to avoid injury?	
☛ Is our hazard insurance coverage adequate to cover the value of your property?	
☛ Is our liability insurance coverage adequate to protect the organization against major loss?	
☛ Are all staff trained in appropriate fair housing and affirmative marketing procedures?	
☛ Have staff been trained in laws relating to accommodating the needs of the disabled, including the Americans With Disabilities Act?	
☛ Are all staff trained regarding appropriate behavior with respect to sexual harassment?	
☛ Is there a good means to clearly document and quickly communicate any incidents involving injury, theft or damage that might result in lawsuits or insurance claims?	
☛ Have management and maintenance employees been screened and hired on the basis of their being able to exercise good judgment to prevent problems or respond to emergencies, when they occur?	
☛ Have residents been given sufficient information and been encouraged to take more responsibility for their own safety and for the safety of the apartment community?	
☛ Have health hazards with respect to lead-based paint and asbestos been appropriately addressed (if applicable)?	
☛ Are safety inspections being regularly performed by management and maintenance staff?	

### Insurance

Insurance coverage for ORHI is as follows:

**Type of Insurance**

**Coverage** Need info from ORDC for this chart

Fire & Extended Coverage

Liability

Theft/Vandalism

Automobile

Workers Compensation

Employee Fidelity Bond

Boiler

Rental Income

**Risk Rating Analysis**

It is highly recommended that the following table be completed annually using the Risk Rating chart on the following page.

<b>Risk Class</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Vacancy</b>						
<b>Delinquency</b>						
<b>DCR</b>						
<b>Reserves</b>						
<b>Conditions</b>						
<b>Compliance</b>						
<b>Maintenance</b>						
<b>Property Management</b>						
<b>Risk Rating</b>						

<b>Rating</b>	<b>Characteristics</b>	<b>Risk Management</b>
<b>STRONG (1)</b>	Vacancy rate is no more than 5% gross potential rent Delinquency is in more than 3% effective gross rents Debt Service Coverage ratio including reserves and must pay debt is 1.25 Property is in excellent physical condition and no compliance issues exist. Property management is strong	Review and analysis of quarterly report Random compliance review and site inspection
<b>ACCEPTABLE (2)</b>	Vacancy rate is no more than 7.5% gross potential rent Delinquency is in more than 5% effective gross rents Debt Service Coverage ratio including reserves and must pay debt is 1.10 Property has deferred maintenance, but is being addressed and no compliance issues exist. Property management is adequate	Review and analysis of quarterly report Random compliance review and site inspection
<b>MARGINAL (3)</b>	Vacancy rate is no more than 10% gross potential rent Delinquency is in more than 7.55% effective gross rents and turnover frequent Debt Service Coverage ratio including reserves and must pay debt is 1.0 Property in poor condition and has correctable compliance issues exist. Property management is weak Reserves are under funded and GP has made advances	
<b>WEAK (4)</b>	Vacancy rate is 12% gross potential rent Delinquency is in more than 10% effective gross rents and turnover frequent Debt Service Coverage ratio including reserves and must pay debt is less than 1.0 Property in poor condition and has serious compliance issues exist. Property management is weak Reserves are under funded and GP has made advances	Work out plan needs to be created and monitored
<b>PROBABLE LOSS (5)</b>	In addition to level 4, foreclosure actions are underway. Sponsor is on brink of bankruptcy Physical condition extremely poor Severe, uncorrectable compliance issues exist.	

## **X. Exit Strategy**

The Exit Strategy for Ohio River Homes I entails the creation of a plan for ORDC to either hold or sell the units after Year 15. ORHI is unique in that the 49 units are leased to tenants under the premise that they will “lease to own” over the 15 year tax credit period. As a result, ORDC has to develop two plans: one that addresses what it will do with the units in Year 16 (its exit strategy) and a second plan, or a property disposition strategy, for how it will implement that is largely a Lease Purchase Option plan to sell units to tenants.

Cleveland Housing Network (CHN) in Cleveland, OH has produced over 3,000 units in almost 20 lease purchase partnerships. In 2002, they will have completed their first “run” of unit disposition to lease purchasers. The model proposed for ORDC draws on their experience to date.

The following steps have been identified as a guide for addressing the policy, legal, financial and administrative tasks associated with ORHI’s disposition strategy, implementing the Lease Option Agreement. An administrative plan is attached that addresses what tasks need to occur and a timeline through the end of the partnership holding period. The plan can be then be incorporated into ORDC’s long term strategic plan for monitoring and implementation.

### **Step 1 – Create ORDC’s Exit Strategy**

Prior to the end of the partnership in 2014, ORDC has to create a plan that will allow it to acquire the 49 units from the partnership once it terminates. The “purchase price” is payment of existing partnership debt and exit taxes. This may involve obtaining loans and/or grants to acquire these properties. It is highly recommended that financial projections be monitored thorough out the partnership period to minimize the exit taxes for the partnership. Obtaining financing for the exit strategy should be initiated no later than Year 14 of the partnership. ORDC should also prepare a “post partnership” operating budget to estimate the cost of holding these units while the Lease Purchase Options are being implemented.

### **Step 2- Understand Affordable Periods and Restrictions**

Understanding the restrictions in maintaining the ORHI units as affordable housing is critical in creating a disposition plan. ORDC has responsibility for compliance monitoring of these restrictions for up to five additional years after 2014. Assuming a unit is sold to a Lease Purchase buyer, the existing deed restrictions will transfer to the lease purchase household and will be released by OHFA once title has transferred. If a unit does not transfer to a Lease Purchase buyer, the property may have to maintain its affordability restriction as outlined in the chart below. (More information on this is discussed in Step 5.) The following chart is a summary of the project’s restrictions.

<b>Rent</b>	<b>Time Period</b>	<b>Income Level</b>	<b>Rent Restriction</b>	<b>Tenant</b>
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<b>Restrictions by funding source</b>				<b>Files</b>
LIHTC/Section 42	1/1/99-12/31/38 unless units are sold to lease purchaser at end of 15 year holding period (2014)	39% of units (18) must be leased at 60% of median or below; 61% of units (30) must be leased at 50% of median or below	70% of units at level affordable to persons at or below 40% of median gross income adjusted for family size; 30% of units to persons with incomes at or below 41% % of median gross income adjusted for family size	Original tenant files maintained 21 years from initial lease-up
State & City HOME Funds	20 years on new construction 15 years on rehab			20 years on new construction, 15 years for rehab

### Step 3 - Address Policy Issues

The policy issues summarized below need to be reviewed by ORDC staff for recommendation to ORDC's Board. The Board, or a designated committee, should make appropriate policy recommendations and approve a final policy that will be reflected in the Lease Option Agreement. Upon resolution of policy issues, the lease option agreement should be drafted. Using CHN's model may be helpful as a template.

The ORDC Board should consider the following:

- What is ORDC's philosophy regarding the Lease Purchase Model?
- What is the board's commitment to selling units to Lease Purchase families? Does ORDC want to provide a training/education component for residents as they move closer to the lease purchase date?
- What is the plan for units not sold under Lease Purchase Option? (maintain as permanent affordable housing, sell on the open market, etc.)
- Is there a commitment to a "shall not exceed" (maximum) purchase price?
- If the original cost of four bedroom homes were higher than three bedrooms, should this be reflected in the sale price?
- The CHN model grants up to \$10,000 as a "residency credit" to tenants who have been in units for 10 years or more. Credits are earned at the rate of \$1,000 per year of occupancy. This represents a "built in" equality for families who were long term residences versus short term renters. Is this something ORDC wants to consider?
- There are several affordability issues that need discussion.
  - a. What is the income range of existing residents and how many are interested in buying their home?
  - b. What is the commitment/interest in making the sale affordable to very low income residents?
  - c. What debt and income (underwriting) ratios will be targeted?
  - d. How will funding requirements be dealt with?
- In looking at the 15 year period, in what year should a lease option agreement be signed?

(CHN has agreed to sign the option in year six.)

- In the event of the death of a lease purchaser, does ORDC want to offer an “income qualified” heir who can step in the shoes of the deceased tenant within a short period of their death?
- Maintenance: This process can be fairly complicated because of the “no debt” requirement during the last five years of a partnership.
  1. One of the lessons learned throughout the history of the lease purchase projects is that virtually all units will be in need of capital improvements and repairs prior to the sale to a lease purchaser. Many projects have needed major capital improvement after Year 10 of the partnerships. A capital needs assessment should be completed between Years 8 and 10 to determine what improvements need to be made.
  2. Further complicating maintenance and capital improvements program, the governing law of the LIHTC program, Section 42 of the IRS Code, states the partnership cannot take on any additional debt in the last five years of the partnership. Therefore, repairs/capital improvements cannot be funded through debt refinancing the partnership. Existing reserves or grant funds will have to address capital needs items if they are done after Year 10. Is there a way to fund reserves now through Year 10 that allow improvements to be funded “internally”? If not, then what will the strategy be to cover these improvements?
  3. When the ORDC takes title in year 16, any improvements needed can be refinanced by the nonprofit and included in the sales price to the family. What will ORDC’s policy be on paying for point of sale repairs?

#### **Step 4 - Research Partnership Obligations**

The legal and financial documents of the partnership should be reviewed and a summary of obligations as of the current year end financial period 12/31/01 and year 15 should be analyzed. The purpose of this task is to compare projections to actual figures on equity payments, OHFA bridge loan payments, annual tax credits and losses and to identify what the fixed costs (debt plus exit taxes and closing costs in year 16) will be as a component of the purchase price to the family. Secondly, it will identify any financial obligations that will need to be monitored annually. Primarily projected losses and balance of LP Capital Account..

#### **Step 5 – Prepare Lease Option Agreement**

Upon resolution of policy issues and having an understanding of financial obligations, the lease option agreement should be drafted.

#### **Step 6 – Initiate Process to Release OHFA Restrictive Covenant**

As a requirement of the LIHTC program, units in ORHI must maintain their “affordability” for a 25 year period, in this case through 2038 through a restrictive covenant OHFA placed on the properties. This deed restriction needs to be waived if ORDC plans to sell the units under a lease

purchase option. If it is not waived, any sale by ORDC to the “Year 16” buyer before 2029 must meet the deed restriction. ORDC must submit a request to OHFA asking for a procedure for the “Release from the Restrictive Covenant”. ORDC will need to identify how much time they will need to sell homes at the end of the partnership period and indicate how long OHFA’s waivers would be held in escrow. OHFA has the authority in establishing an administrative procedure to release units from the 25 year extended use period. OHFA will not consider a waiver until a final Lease Option Agreement has been approved by ORDC’s Board.

Two to three years to sell the 49 units is a recommended range to consider. During this two to three year period, ORDC would be assisting lease purchase buyers in obtaining mortgage financing and possibly providing final training in home ownership skills. ORDC would have created a disposition plan for each year, for example, 25% of units sold in Year 16, 50% transferred in Year 17, balance in Year 18.

Beginning in Year 16, ORDC’s legal counsel will hold OHFA’s Restrictive Covenant Releases in escrow for up to the allotted period. The units will be released from the 25 year extended use period as Lease Purchaser’s take title to the property. After the allotted period, releases for any unsold units are returned to OHFA and the remaining units must meet the restrictions until 2038.

HOME funds are also governed by affordability requirements. ORDC will also need to identify HOME units by Partnership (i.e., those units that “received” HOME funds during the development period) and reflect the extended affordability requirements in the Lease Option document.

### **Step 6 – Create an Administrative Plan to Monitor Financial Performance, Tenant Readiness and Annual Tasks**

An Administrative Plan for ORHI is presented in the chart that follows. Activities will include, but will not be limited to, the following issues and tasks.

- ✓ A decision to refinance existing first mortgages should be considered now with rates at an all time low. Savings will result in additional net operating income.
- ✓ A capital needs analysis needs to be completed by partnership to identify if reserves are sufficient and what a gap might be.
- ✓ The Limited Partner Capital account needs to remain positive and will need to be monitored annually to ensure exit taxes are minimized.
- ✓ A financing plan for lease purchasers in Ohio River Homes I LP needs to be developed for the year 16 holding period that reflects sales per year and holding costs. Local banks can be involved in creating tools for this plan.
- ✓ Consideration should be given to creating an education plan leading up to Year 16 so that lease purchasers are capable homeowners.
- ✓ A timeframe for implementing the Lease Option Agreement needs to be spelled out.
- ✓ A community awareness plan involving the county, real estate professionals and appraisers should be considered for Year 16 around the impact on local market values when this volume of homes transfers ownership.

## **Summary**

In summary, the following activities must be conducted between now and the end of the partnership.

1. Decision about ORDC's exit strategy developed to assume or refinance bank portion of debt that will remain after the partnership has expired. Ideally, this process should begin in Year 14.
2. Determine ORDC policy on Lease Option Agreement
3. Compute sale price for family, prepare purchase agreement, and notify family that they can exercise their option agreement
4. Obtain OHFA waivers
5. Prepare and update projections for holding costs during transition period from ORDC to LP family.
6. Negotiate with City on HOME loans (State HOME funds will require a 5 yr deed restriction placed on unit)
7. Develop financing plan for Lease Option buyers.
8. Family obtains mortgage and takes title; OHFA Restrictive Covenant is released as Lease Purchaser takes title.
9. For units that are not sold under a Lease Purchase option, ORDC pursues other options for disposition of units