

PROFORMAS AND DEVELOPMENT, THE CFO PROSPECTIVE

Tuesday, May 11, 1:00-2:00 PM ET

HOST:

Art Fatum
Strength Matters



STRENGTH MATTERS ANNOUNCEMENTS

Updated Financial Reporting Best Practice Series

Papers cover current FASB guidance and cover key issues for:

- Assets
- Broad Transactions
- Not-For-Profit Entities
- Revenue
- Presentation
- Liabilities

Free CHAM Webinar **Tomorrow:**

From 1-2:15PM ET/ 10-11:15AM PT

New Initiatives to Deter Year 15 Right of First Refusal Disputes

STRENGTH MATTERS JOB ROUNDUP

Current postings:

- **Sacramento** – Senior Accountant position
- **Austin** – Controller position
- **D.C.** – CFO position
- **Pacific Northwest** – COO and Finance Director positions
- **SF Bay Area** – CEO, CFO, and Senior Property Accountant positions
- **Los Angeles** – CFO and Senior Accountant positions
- **Minneapolis** – Director, Finance and Accounting position
- **New England** – CFO and Property Accounting Manager positions

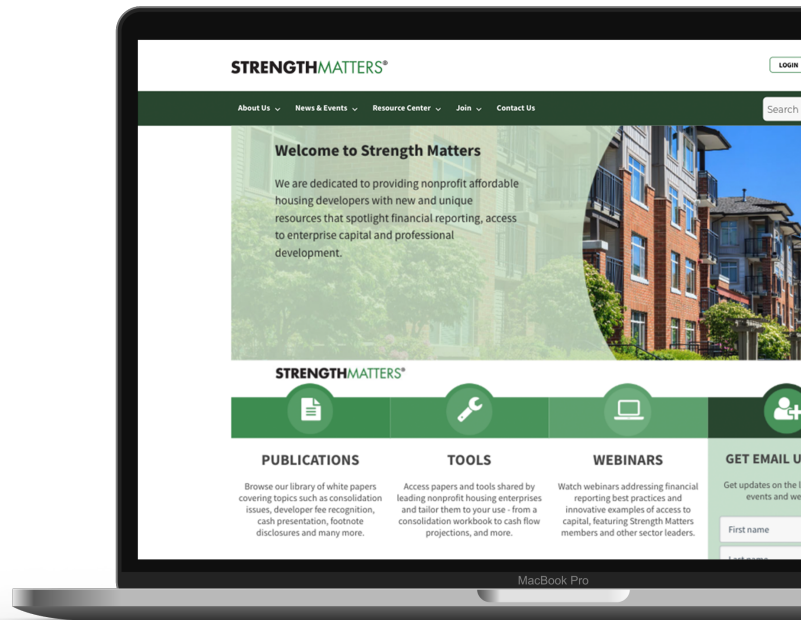
Check out StrengthMatters.net/jobroundup to view details and email Chelsea at info@StrengthMatters.net for posting consideration.

JOIN STRENGTH MATTERS TODAY

Subscriptions available at
www.strengthmatters.net

Access to previous webinars and all publications, including:

- Templates for consolidation, five-year cash flow projection, etc.



GETTING STARTED

QUESTIONS?

- Slides and a recording of the presentation will be available in a few days. Registrants will be notified by email.
- Please use the **Zoom Q&A** feature to submit all questions.
 - *Q&A is located on the black menu bar. If menu is not visible, move your cursor to view.*
- We will pause for questions during the presentation.
- This webinar platform is “view & listen” only for participants. Presenters cannot hear participants during the webinar.

CPE REQUIREMENTS

- **We use polls and the Zoom attendance record to verify participation throughout the webinar.**
 - Participants must submit ALL polls and be logged in by 10 minutes after the scheduled webinar start time to receive a certificate.
- **If you plan to petition your state board of accountancy for CPE credits, please submit ALL polls, INCLUDING the final evaluation.**
- To request a certificate of completion or for more information on CPE credits, **contact Lindsay Wells at consult.lwells@gmail.com.**

MEET THE PRESENTERS

Tanya Hahn

CFO,
National Church
Residences



Valorie Schwarzmann

CFO and SVP Program
Operations, Homeport



Tatiana Blank

CFO
Eden Housing



OVERVIEW OF N^^

- Founded in 1961 by 4 Presbyterian Churches in Columbus, OH
- Own affordable housing in 24 states ~275 assets
- Also 3rd party manage ~ 60 more
- Also own healthcare sites in OH & FL
- Service coordinators in N^^ & 3rd party sites ~400
- Separate Foundation with ~\$120 million
- No consolidated financials – special purpose
- No public rating or desire to get rated

DEVELOPMENT

- N^^ internal team ~ 25 people – construction management; architects; finance; legal; interior design; project management
- Development services for all N^^ projects = earn a fee
- Tax credit syndication – new & existing properties
- Acquisitions of existing affordable properties
- Generates about \$7 to \$8 million per year gross development revenue
- Prefund all development costs – at risk expenses

GUIDING PRINCIPLES

Real Estate Investment Policy

Pre-Dev	Land	Loans/Equity	Project Size
<ul style="list-style-type: none">• \$500K• \$750K architects	<ul style="list-style-type: none">• \$2 Mil• Max 120% FMV	<ul style="list-style-type: none">• \$3 Mil• Acquisitions• LIHTC• CMF	<ul style="list-style-type: none">• \$20 Mil• Board approves >\$20 Mil

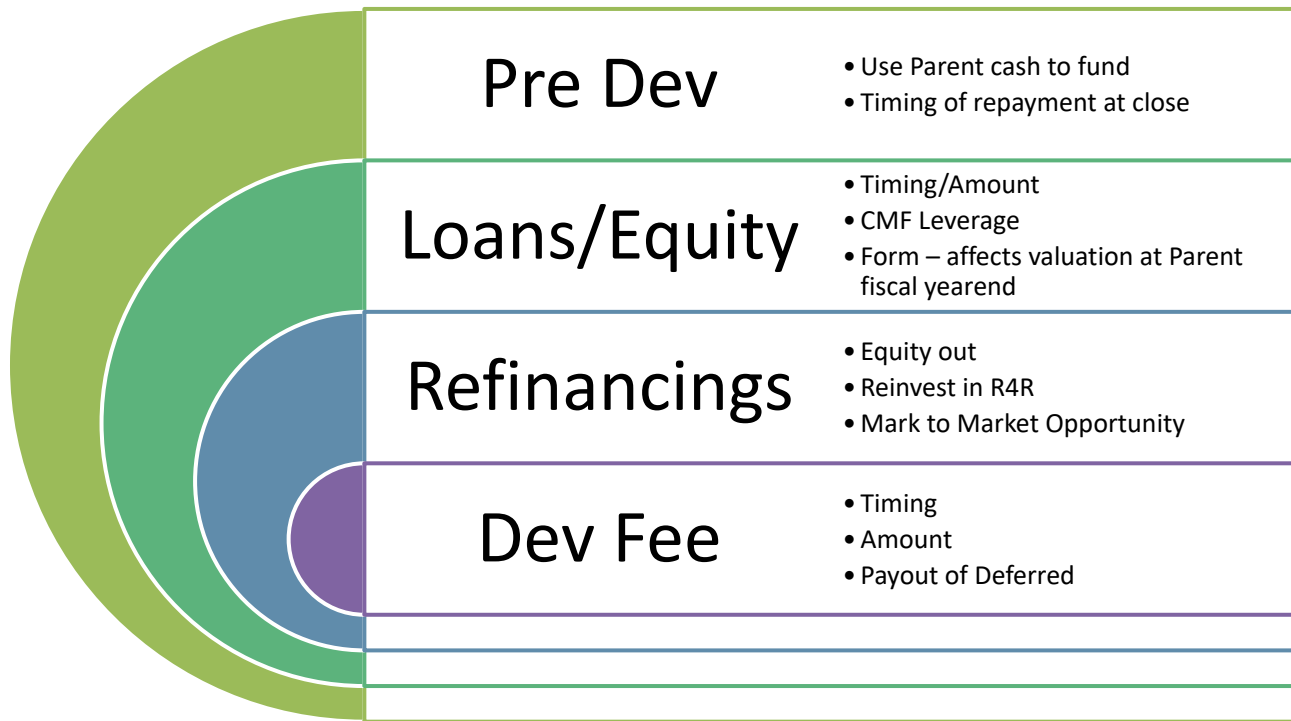
Approved by Board Annually

Updated Annually by Staff led Investment Corporation Board

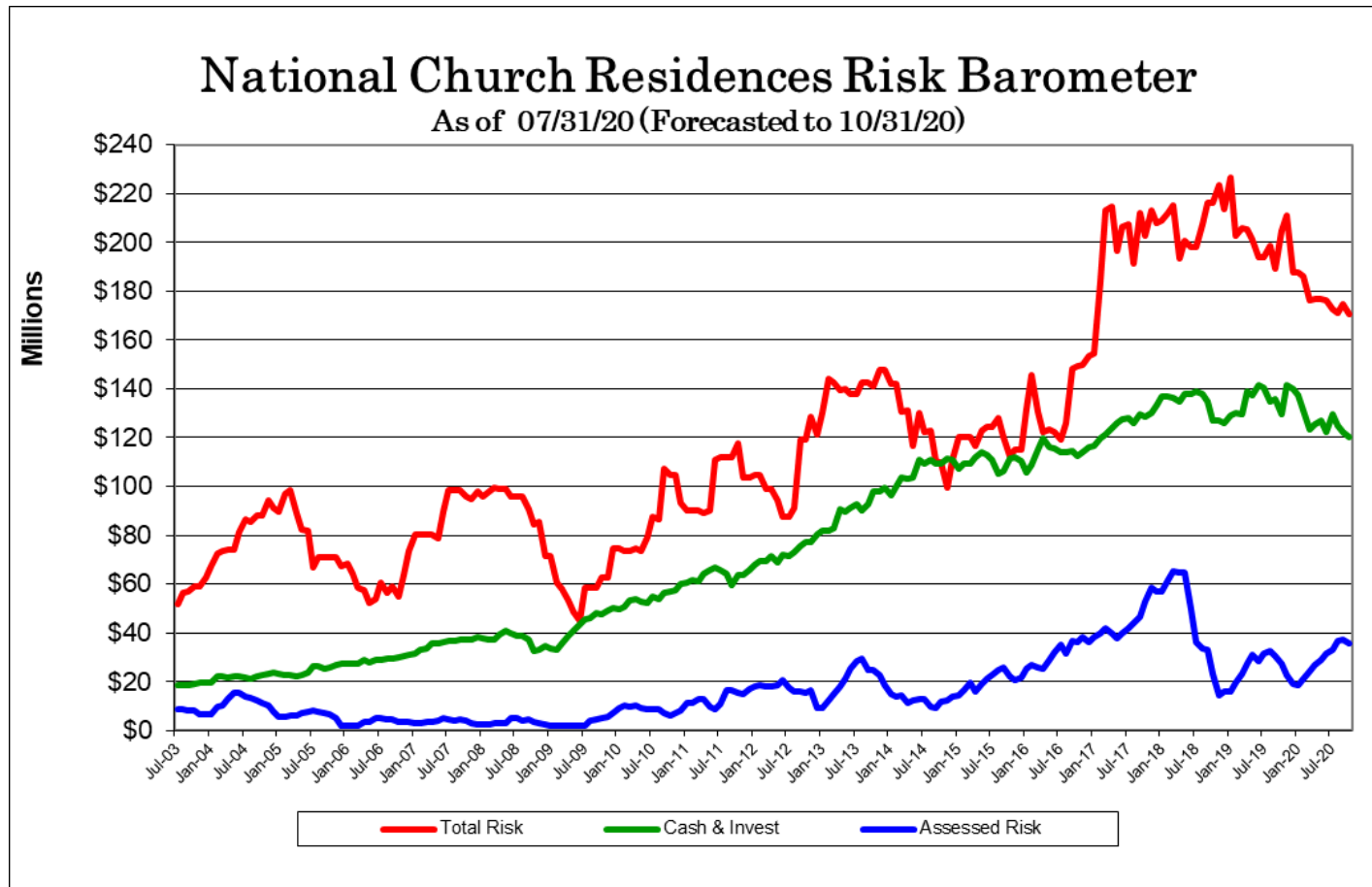
UNDERWRITING GUIDELINES

Acquisitions	Tax Credit	Refi/Loan Mod	Guarantees	Risk Score
<ul style="list-style-type: none"> • Location • Size • IRR • Mgt Co Fees • Vacancy • R4R Balances • Capital Needs • Op Expenses 	<ul style="list-style-type: none"> • Location • Size • Paid Dev Fee • Mgt Co Fees • Cash Flow to N^^ • Vacancy • R/E Taxes • Architect • Contractor • Construction Contingency 	<ul style="list-style-type: none"> • Rate Decrease 1% • Debt Service \$15K lower • Increase Prin. up to Orig. Loan • Lock out • DSCR • Term < 16 yrs or no change with rate mod 	<ul style="list-style-type: none"> • \$250 Mil • Excludes tax credit recap • Op Deficit \$ 	<ul style="list-style-type: none"> • Evaluate various criteria • 0 or 1 score • 19 criteria • Low score/low risk

PARENT CASH FLOW IMPLICATIONS & COVENANTS



ONE TOOL TO MANAGE RISK



COLUMBUS HOUSING PARTNERSHIP, INC. DBA HOMEPART

Established 1987; Located in Columbus, Ohio

- 40 Owned Properties (21 are past Year 15; 217 Lease Option Homes currently available for sale to residents)
- 2,665 Homes; 6800+ Residents
- Mission: Create strong communities by developing quality, affordable homes on a cornerstone of dignity, security and opportunity.

Strategic Priorities

- Close the Affordable Housing Gap (Increase Production, Expand Beyond 9%)
- Laser Focus on our Residents (Quality & Safe Housing; Services)
- Ensure the Mission Endures (Staff, Financial)

Market Conditions

- Significant shortage of affordable housing



COLUMBUS HOUSING PARTNERSHIP, INC. DBA HOMEPORT

Focus on Pipeline Growth (Close the Gap)

- 9%
- 4% Rehab of Older Properties and Acquisitions from 3rd parties
- Workforce Housing without tax credits
 - Including Joint Ventures with For-Profit Developers

Development Team

- Internal Business Development and Project Management and Real Estate Controller/Risk Mgt
- Hire 3rd Party architects, construction, and legal
- 3rd Party Property Management
- Organizational Go/No Go Policy and Joint Venture Policy (to preserve not-for-profit status)



CFO PRO FORMA FOCUS DURING CONSTRUCTION: FINANCING ISSUES

Understand Up-Front for each project and in the aggregate...

Organizational Financial Commitment to Individual Projects?

- Understand when a project needs PERMANENT or TEMPORARY funding from the Parent.
 - Contribution of Capital or Loan?
- Any additional possible gap that the parent might need to fill?
- What funding is available for organizational/parent financing?

Predevelopment Costs

- Organizational expense budget for Deals that Don't Move Forward
- Use revolving parent capital funds?
 - Are revolving funds being repaid as planned?
 - Are you adjusting projected uses and repayments as facts change?
- Project Predevelopment Loan?
- Organizational Predevelopment Line of Credit?



homeport

CFO PRO FORMA FOCUS DURING CONSTRUCTION: ORGANIZATIONAL STRATEGY

Overall Organizational Development Strategy & Expectations

Development in Growth Mode? Maintenance Mode? Reduction Mode? What may or may not need to be changing as move forward?

Developer Fees

- What are the organizational expectations for developer fees per project? Tracking time spent to determine profitability of development department.
- Pro Forma include Deferred Fee?
 - What is the anticipated Cash Flow for payment of the deferred fee and are there any risks that could increase the deferred fee?
 - What are the Cash Flow Waterfall terms to the Parent? Do any funding sources include any limitations on distributions?

Resident Services Fees...make sure understand if included in the pro forma or not ... may need to identify other non-project resources to pay for them.

- Anything unique promised that needs to be covered?

Asset Management Fees



CFO PRO FORMA FOCUS DURING CONSTRUCTION: ORGANIZATIONAL STRATEGY

Overall Organizational Development Strategy & Expectations

Type of Project and Risks Associated

- Is this a “cookie cutter” project or is this a new type of project for your organization?
9% versus 4% rehab versus acquisition versus workforce housing, etc.
- Is there a new partner involved? What is their role? How experienced are they?
Who has ultimate decision-making authority?
- What are the inherent risks to each project and track them.
- Communication is key, especially as learning. Have good CFO friends to ask who have done this kind of project before...is there something unique to watch out for?

The Pro Forma is a roadmap of “what is expected” ...so know to ask questions when something isn't going according to plan



CFO PRO FORMA FOCUS DURING CONSTRUCTION: UNDERSTAND UNDERLYING ASSUMPTIONS PER PROJECT

Understand Initial Assumptions

- Timing of Milestones
 - Closing
 - Construction Schedule and recognition if use Percentage of Completion Revenue Recognition
 - Projected Completion and Certificate(s) of Occupancy
 - Lease Up Schedule
 - Credit Delivery
- Amount, if any, of Deferred Developer Fee
 - Are you sharing the total fee with a partner?
- Contingency
 - Amount
 - Any items assumed will be paid with the Contingency?
- Possible Credit Adjuster



CFO PRO FORMA FOCUS DURING CONSTRUCTION: COMMUNICATION

During construction, watch out for...

- Words and Phrases used such as: Delay, Value Engineering, Change Order, Costs not Anticipated, Cost overruns, Something We've Never Seen Before, There is an Issue but don't worry, Don't worry we're just making up the difference by deferring developer fee
- Concerned Look when describing the status of a project
- Celebrate Words such as: Ahead of Schedule, Positive Credit Adjuster, Unused Contingency, It's Done

Establish Continuous Communication between CFO and Development

After project completion, project debrief and process for feedback

And then, remember,...Talk to Each Other...A Lot!



Eden Housing

Fifty+ years of providing affordable homes for individuals and families throughout California

WHO WE ARE



- California-based non-profit established 52 years ago
- 150 properties in 15 counties & 50 cities
- 10,000+ homes
- 22,000+ residents



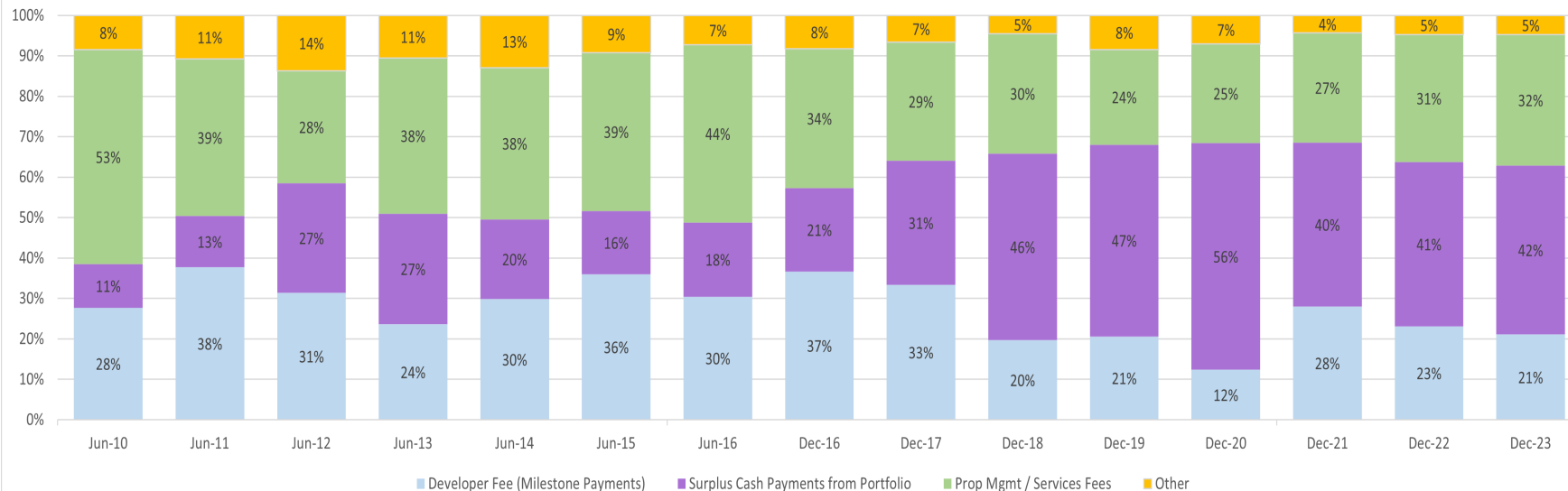
Eden Housing creates and sustains high-quality affordable housing communities that advance equity and opportunity for all

FOCUS ON LONG TERM OWNERSHIP

- Eden is a long-term owner - we still own our first property built in 1972
- Grew through new construction, acquisition and mergers – own many aging properties with different types of financing structures
- 2014/2015 set strategic goals around the portfolio:
 - Building out asset management capacity
 - Lessening reliance on one-time events (i.e. developer fee milestone payments)

FOCUS ON SUSTAINED CASH FLOW

Eden Housing Revenue Composition Over Time



CFO ROLE

- Eden - Asset Management reports to CFO
- Wear multiple hats – balancing portfolio needs with corporate needs
- Development proformas are a key tool/roadmap:
 - Long term view (min. 15 years of operations)
 - Show corporate and portfolio impacts



UNDERSTAND AND QUESTION ASSUMPTIONS

- Proforma created at a point in time/updated at milestones
 - Optimistic – deals won't get done otherwise!
 - Long term view - min. 15 years of operations
 - Good source of historical information (if get updated at milestones)
 - But results WILL be different from projections
- Proforma creation is led by developers/prioritize development needs
 - More precision/details provided up to PIS
 - May not always understand and reflect larger organizational priorities

UNDERSTAND AND QUESTION ASSUMPTIONS: CORPORATE FINANCE HAT

- Timing of everything! (capital contributions, milestone events, completion, lease-up, developer fee collection)
- Fees to the parent organization (developer fee, prop. mgmt, partnership mgmt., incentive, distributions)

SCHEDULE			
Loan Closing	17-Jun-20		
Start of Construction	17-Jun-20		
Construction Completion	15-Feb-22	20 months	
First Month Credit Delivery	1-Mar-22		
100% Occupancy	15-May-22	3 months	
Conversion/Stabilized Occupancy	15-Sep-22	4 months	
Form 8609	15-Mar-23	6 months	
Construction Period	20		
Months to Stabilized Occupancy	7		
First Year Portion in Operation (2022)	11	92%	
First Year Portion in Perm (2022)	4	33%	
First Year % Occupied (per lease up schedule below)		78%	
First Year PIS for Credits	0		
Second Year PIS for Credits	12		
Estimated Lease Up Schedule			
	Units	Percentage	
31-Mar-22	34	48.6%	
30-Apr-22	30	91.4%	
31-May-22	6	100.0%	
	70		
Maximum Unit-Months			
First Year Credit Percentage			78.33%

UNDERSTAND AND QUESTION ASSUMPTIONS: ASSET MANAGEMENT HAT

- What happens when things go wrong... or right
 - Possibly run additional “best case” and “worst case” scenarios
- Assumptions regarding property performance; sensitivity to deviation from proforma
 - Income/expense increase %
 - Vacancy rate

UNDERSTAND AND QUESTION ASSUMPTIONS: ASSET MANAGEMENT HAT

- Cash Flow splits
 - Clarity is critical. Waterfalls are complicated. All agreements accounted for?
 - Reference LPAs, loan docs, partner side agreements, etc.
 - What can go right – are there mechanisms to capture extra cash flow?
 - What can go wrong – opportunity to setup additional services or operating reserves (from construction cost savings)
 - Development-driven decisions and impact on cash flow distributions – are they in line with org. priorities?
Ex: impact of energy credits on cash flow splits

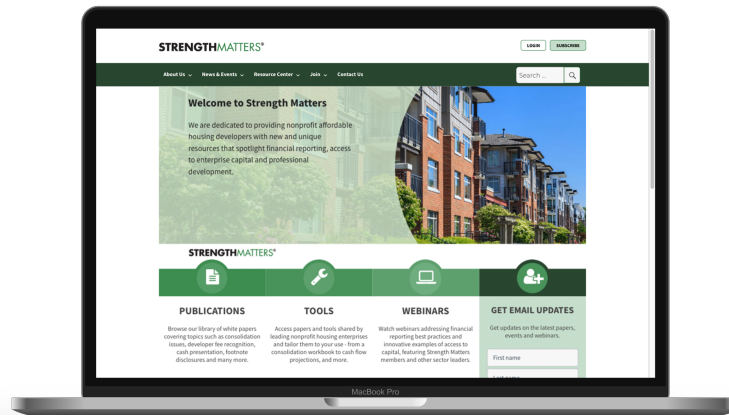
UNDERSTAND AND QUESTION ASSUMPTIONS: ASSET MANAGEMENT HAT – LP EXITS

- Critical consideration for long term nonprofit owners
 - Watch projected capital accounts.
 - If close to zero per projections, need to monitor very closely to avoid LP tax liability
 - If materially positive, need to monitor reserves/spenddown plan closely, or may go to LP
 - What happens to deferred developer fee in years 13-15
 - Project Reserve assumptions

FINAL QUESTIONS?

- Please use the **Zoom Q&A** panel to submit questions.
- Presenters will remain on the line to answer remaining questions.

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EVALUATION POLL

- Please complete the **Evaluation** in the **Polling panel** and **click Submit** when finished.
- **CPE CREDIT**: If you plan to petition your state board of accountancy for **CPE credit**, you must complete and submit **ALL polls, INCLUDING this Evaluation**.
- This poll will remain open for 10 minutes.

THANK YOU FOR PARTICIPATING!

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