



# Leveraging Federal Funds

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# FOCUS ON LEVERAGING



- With reduced resources, “leverage” is redefined:
  - *Funds*
  - *Organizational Infrastructure*
  - *Expertise/Capacity*

# LEVERAGING ORGANIZATIONAL INFRASTRUCTURE



- Development is a long term investment.
  - Long term Affordability means we are in the deal for many years.
  - A successful development organization has a multi-year business plan.
    - Not-for-profit developers are businesses.
    - In addition, developers become property and asset managers over time.

Are you a risky prospect?

- Staff Qualifications\*
- Board Strength
- Consultant Team
- Financial strength

# OPPORTUNITY – BUILD THE STAFF



- Succession planning
  - Oversight, apprenticing
- Institutionalize memory: create the paper trail
- Staff training
  - Diversification, redundancy & personal growth
- Role of Consultants
  - A consultant should increase your own internal capacity over the long term

# OPPORTUNITY – STRENGTHEN THE BOARD



- Planned turnover can be healthy
- Recruit board members w/ development skills
- Train board in development & board role
- Use committee or subsidiary to oversee
- Evaluate completed projects & portfolios

# OPPORTUNITY – STRENGTHEN THE NUMBERS



- Clean audits that demonstrate financial controls are in place
- Know your operating cycle
- Diversification is good, URA are even better!
- Know the story your financials tell

# BUILD A PORTFOLIO



- Portfolio should provide ongoing revenue
- Rental portfolio: projects should support developers, not vice versa
  - Revenue should support mgt & generate cash flow
  - Project-based budgets & reports
- Mortgage portfolios: think payback
  - Ongoing revenues for the organization
  - Maybe loans can't amortize now...but maybe later
  - Don't forgive loans at the end of compliance period
  - "Pass it on"



# BUILD LIQUIDITY



- Working capital, lines of credit, pre-dev loans
  - Pre-dev costs & capital advances
  - Aim for 5 – 10% of typical project cost
  - Growth companies create working capital fund
- Replenish the working capital fund
  - Return capital advance reimbursements + extra developer fees (after expenses)
  - “Tithe” from developer fees earned

# CAPACITY LEVERAGING IQ



Are you a risky prospect?

- Experience\*
- Track Record\*
- Types of Projects\*
- Numbers of units owned
- Numbers of units developed

# ASSESSING RISK – HOW BAD DEALS HAPPEN TO GOOD PEOPLE

- The risk of project completion
  - Governmental requirements
  - Cost overruns
  - Firm financial commitments
- The risk of financial feasibility
  - Debt Coverage
  - Breakeven/leases
  - Return on Equity

***Compliance begins at conception, not completion***

# ASSESSING RISK – HOW BAD DEALS HAPPEN TO GOOD PEOPLE

- The risk of project value
  - Loan-to-Value Ratio
  - Collateral on the loan
    - Changes in real estate
  - Long Term maintenance
    - Replacement reserves for Buildings
    - Operating losses due to vacancies and “competition”

***What are you getting out of all of this?***

## Increasing Difficulty

Increasing Difficulty

<b>Multifamily Acquisition Track</b>	Acquire Existing Property <ul style="list-style-type: none"> <li>Stabilized / no Significant Rehab</li> <li>No Significant Commercial Revenue</li> <li>No proj based Sec 8</li> </ul>	Add one or more of the following: <ul style="list-style-type: none"> <li>LIHTC</li> <li>Minor Rehab</li> <li>Low level management turn around issues</li> </ul>	Add significant commercial income but has tenants in place / good commercial occupancy history		
<b>Multifamily New Construction or Acquisition + Major Rehab Track</b>	New Construction / Major Rehab on a turnkey basis (PHA does not bear development risk) Development is not HUD funded / regulated public housing.	Add one or more of the following: <ul style="list-style-type: none"> <li>LIHTC</li> <li>Same as left but PHA does bear development risk.</li> </ul>	Development includes significant commercial income which is preleased to credit tenants	Development includes significant commercial income / little or no pre leasing.	
<b>Public Housing Track</b>		Modernization of existing public housing using capital grant finance only.	"Modernization by Replacement" of existing public housing. Resulting asset is owned by PHA. (Is not "Mixed Finance" per HUD)	Modernization or replacement of public housing involving non PHA ownership (i.e. meets HUD's "Mixed Finance" definition)	HOPE VI
<b>For Sale Housing Track</b>			For sale starter home construction. No Section 8(y).		Sec 8(y) homeownership.
<b>Service Intensive Track</b>					Developments where tenants have little or no earned income and rely on transfer payments other than Sec 8. Includes low income assisted living.

Easiest / Best Odds for Success

Harder / Reduced Odds for Success

Think Twice if this is your Debut Effort

"If you are learning to swim, avoid wearing concrete tennis shoes."

# SUMMARY



- Work to your organization's strengths
- Plan for board & staff development & succession
- Create a pipeline of good projects that make sense for your organization
- Build/preserve working capital fund
- Build a profitable portfolio & manage it

# FOR FUTURE REFERENCE



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