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## BHA REPOSITIONING STUDY SESSION MINUTES

NOTES OF THE BHA REPOSITIONING STUDY SESSION MEETING OF THE BOARD OF COMMISSIONERS OF BREMERTON HOUSING AUTHORITY (BHA) HELD AT 9:00 AM AT 345 6<sup>TH</sup> STREET ON SEPTEMBER 16, 2022.

1. **CALL TO ORDER:** Meeting was called to order at 9:06 a.m.

2. **ROLL CALL:**

**Present:**

Chair Joan Hanten	Commissioner Jaime Forsyth
Vice Chair Jeff Flood	Commissioner Ryan Burton
Commissioner Andre Henderson	

**Excused:**

Commissioner Bo Palmer

**BHA Staff Present:**

Jill Stanton	Executive Director
Carlita Mendez	CMS Director
Tim Schanne	CMS Assistant Director
Sherman Enstrom	Finance Director
Andi Reed	Housing Director
Paula Kennedy	Human Resources Manager
Katie Sharp	Communications Manager
Greg Verini	Business Development Analysis
Lorna Camacho	Office Mgr./Exec. Asst./Minute Taker

**Also Present:**

Jim Brawner, President JH Brawner  
Zak de Gorgue, Managing Director

3. **PUBLIC COMMENT:** This work study session was open for the general public to attend however, no opportunities were provided for input or participation.

4. **CHAIR COMMENT:** None

5. **COMMISSIONER COMMENT:** None

6. **A STRATEGIC CONCEPT PLAN FOR THE REPOSITIONING OF BHA'S PUBLIC HOUSING ASSETS:**

The following is a free-flowing conversation of the Executive team on how to meet the challenges of increased demand for affordable housing with reduced funding from the federal government, operational reforms from the United States Department of Housing and Urban Development (HUD), and deteriorating capital. Today's presentation provides specific, updated guidance to the

Authority on the recommended guidance to move forward with a repositioning plan. Board members will have opportunity to respond with questions.

The purpose of the Repositioning is meant to provide a recommendation to BHA on the restructuring of its real estate asset portfolio, with specific emphasis on its public housing units. The recommendation is based on the review and analysis of individual properties and/or groupings of properties, utilization of market driven financing strategies, capital needs and the current construction market. The objective of the recommendation is to identify a specific approach that provides the greatest potential benefit impact to the Authority, including the alignment of building performance, resident retention, authority staffing resources and productivity, financial benchmarks and impacts to the community.

6.1 Introduction: Comments by Ms. Stanton.

Board of Commissioners, Staff and Brawner Real-Estate Development and Consulting.

6.2 Overview: Comments by Ms. Stanton.

What is the issue we are trying to resolve? How did we get to the current place? What is the best path forward to accomplish our mission? This is the baseline foundation on why we are here today. We are not here to decide today; we are here to understand and gain knowledge of information.

We own properties that are not financially viable in the long term. We have capital needs in aging properties and reduced capital funds. We need financial resources to meet the growing need for housing. Whatever we do we want to look at increasing our finances.

What if we did not have CMS. Below are two sources of funding for public housing and two sources for housing choice vouchers. You cannot take funds from public housing and move to housing choice vouchers or vice versa. Public housing is experiencing diminish of funds due to less legislator support. Housing choice vouchers receives a lot more attention. It would be ideal to take public housing and move to housing choice vouchers where there is more support. As HUD is actively shrinking public housing and we do not see it changing. Housing choice voucher is seeing more increase.

Public Housing (PH)	Housing Choice Vouchers (HCV)
Operating Funds/Capital Funds	Housing Assistance Payments/Admin Fees
Repositioning	
Diminishing Funding	Higher Funding
Less Support	Better Support
Actively Shrinking	Actively Growing

BHA - 578 Units. Mixed properties of mainly public housing and project-based vouchers. 206 public housing. Important to note. Mix concept becomes important. As public housing can only be used on public housing units. If properties are mix public housing will only pay a portion.

How it works, which is not bad, but operating this way is not sustainable.

Public Housing (Small Housing Authorities)

Operating ↔ Capital  
Decrease in Capital Funding  
Reliance of Capital Funding for Operations  
Over \$1 million → \$200,000 to \$300,000

Explained percentage which is why this approach is not sustainable for public housing or housing choice vouchers.

Mixed Properties and Funding Capital  
Public Housing – pays %  
Project-Based Vouchers – pays %  
(If not in Capital Needs Assessment – Operations)  
Current model not sustainable for Capital or Operations

Our goal/reposition:

- Responsibly – We want to do it responsibly. We want to invest right; we want to find a plan that works for us.
- Lucratively – There will be opportunity for cash in return to come back to us.
- Sustainably – Look at annual cash flow coming in. Paying for expenses over an extended period.

We need to remind ourselves of why and what we are doing to carry out our mission.

### 6.3 Presentation by Jim Brawner and Zak de Gorgue

Background on Brawner. Brawner provides strategies for analyzing both individual properties and entire real estate portfolios. Our repositioning team develops workable plans ending in long-term financial and capital viability. Brawner's financial methodology considers initial financial structure, management challenges, capital needs and resident profile. That comprehensive understanding gives us the ability to customize our recommendations on a project-by-project basis.

Clients planning for RAD, HOPE VI redevelopment, refinancing, debt restructuring, or property dispositions rely on our consulting for clear, customized solutions. Brawner is presently leading portfolio repositioning for four different housing authorities undergoing either RAD conversions, dispositions, re-syndications, or refinancing. Over the years, we have successfully transitioned over 3,200 units through portfolio restructuring for various agencies.

Overall, Brawner consults with housing authorities. We are not general contractors. Our home base is Washington but have performed work in Utah, California, and Oregon. Completed around 18,000 units of which 75% has been repositioning.

BHA Housing Portfolio: Pointed out mix properties among BHA portfolio, the benefits and challenges faced. We will talk about nontax credit properties.

RAD and Section 18 Basics: What is RAD? HUD repositioning program that combines public housing operating and capital subsidy into payment under a Section 8 HAP contract. Projects must complete any rehab identified as part of the process.

What is RAD/Section 18 Blend? A new program that combines RAD with Tenant Protection Vouchers (TPV) when utilizing the 4% Low-Income Housing Tax Credit Program.

Overall, RAD is the big bug buzz word in repositioning. Public housing units are falling apart across the county. We see a trend to work with the public sector to address public housing.

Public Housing Repositioning Options: Reviewed a list of all programs intended for repositioning.

- TPV rent is based on rent reasonable.
- Streamlined Voluntary Conversion is only allowed to use proceeds on Section 8 and not public housing. This works well for smaller housing authorities who want to get out of public housing. There are other programs more flexible.
- RAD is straight RAD.
- RAD/Section 18 Blend combines the two.

Overall, we are talking about converting public housing subsidy to Section 8 subsidy. This program allows you to do it, but HUD wants you to do xyz and lift restrictions etc. BHA will remain the landowner.

Why Reposition with RAD/Section 18: Resident Benefits; Community Benefits; Portfolio Rehabilitation; Proven Strategy; Financial Impact to BHA.

- Resident Benefits: HUD design this program to have the least amount of impact on residents. Resident empowerment and improved ownership of resident communities. We see a difference in how residents treat their home.
- Resident's homes get upgrades. All residents benefit.
- Enhanced community spaces and interior corridors. This is also community improvement and curb appeal.
- Minimum relocation and ZERO displacement. HUD does not allow displacement of residents. Guaranteed long term affordability of Section 8. Long term benefit built in. Goal is to get out of public housing.
- No change to rent calculation.
- No-rescreening.
- Residents have option to exercise "Choice Mobility." Resident can elect to move and take subsidy with them. Huge benefit for resident.

Community Benefits: Substantial economic stimulus to the community. \$40 million to rehab (Casa Del Sol, Charter House, Firs, Shadow Creek, Tamarack, Tara Heights, Winfield, and Wright Court Properties). Ideal is to leverage properties. BHA gets to determine what goals are. The properties above are the properties we are allowed to convert. But that could always change.

Briefly discussed why you would want to keep some public housing units. Under RAD you can. Currently we have 376 Faircloth units. Faircloth refers to a limit on the number of public housing units a PHA can own, assist, or operate. If we do not have to get out of public housing, there is hope that HUD will convert and offer us regular subsidy later.

Portfolio Rehabilitation: \$40 million construction budget includes significant upgrades to each property. These properties will not have a cash flow for some time. But when combine it gives you flexibility and it allows you to see what project are needed most.

Proven Strategy in Washington: Washington State PHA's with Public Housing conversions completed include (Everett; Walla Walla; Seattle; Yakima; Vancouver; Spokane; Tacoma; Renton; Grays Harbor; and Peninsula). This program is not only for large housing authorities. This program is better today then it was seven to eight years ago.

Financial Impact to BHA: Stability of Section 8 program and ongoing consistent funding levels in contract to Public Housing.

- Ability to focus more on preventative maintenance in lieu of ongoing critical capital repairs. We know exactly what we are going to have. You will not have any capital needs for an exceptionally long time.
- What does it mean for staff? No necessary changes to central office staff necessitated by loss of funding. We will not have extra cash flow. Extra cash flow is unrestricted and will administer more vouchers. New hiring of staff to allow for additional case load.
- Pre-development cost are reimbursed to housing authorities at closing. PHA is reimbursed 100% of all upfront costs related to the RAD conversion and renovation of the projects.
- PHA maintains ownership of properties through a lease structure. At end of 15-year compliance period, PHA will acquire the limited partner's interest under an option agreement. We are the land and building owner.
- The Authority is expected to receive cash developer fees/proceeds. Reimburse from tax credit equity not from HUD.

Phased Approach: Overview of proposed RAD Section 18 Blend. Public housing and other units. Total units 281, out of the 281, 64 public housing units would be converted.

Transaction Highlights: Convert 64 units of public housing to RAD and TPV Project Based Vouchers.

- TPV units bring in twice more income than currently receiving.
- BHA to receive developer fees more than \$5 million.
- \$500,000 in unrestricted annual cash flow. Which may be used for whatever the Authority wants.
- \$40 million in construction rehab and improvements.
- All pre-development costs reimbursed at closing.
- Provides flexibility for "Phase II" conversion.

Low Income Housing Tax Credit (LIHTC) Partnership and Debt: BHA to form single LIHTC Partnership to own and operate projects for tax credit purposes. This shows that a single entity that own and operate property.

- We would maintain ownership through long term lease.
- Partnership borrows permanent loan.
- Debt is paid down during 15-year compliance period, then refinanced prior to 17-year term. Get investor out at 15-year mark, then refinance.
- Increased project income pays for borrowing capacity.

Benefit for tax credit partnership and why? A private tax credit investor would invest with us. Investor would give funds and reduce their tax liability overtime. It is a tax shelter for the investor.

Sources and Uses:

- LIHTC Equity; Permanent Loan, Seller Financing and CFP/OP; Cash Flow during Construction; and Deferred Developer Fees.
- Acquisition; Construction; Relocation; Soft Coasts and Interest; Developer Fee; and Reserves.
- Reserves are not just for capital but also operation. Acquisition is a lease for the tax credit to lease the property for 99 years. Cash flow pays for construction. Relocation careful to make sure there are enough funds.

The entire process would take four to five years from start to end.

A brief discuss regarding where would you put folks during rehab? Hotel units within our units. How would we manage relocation for this project? We need to be incredibly careful about our approach. We may be moving folks out of the area as we have limited resources. It is important to Commissioners that residents are taken care of.

The Authority would want to have a Development Director to oversee this project. Relocation is a big resource piece. Concerns stated the market is not changing and this is going to be huge undertaking.

Mr. Brawner remarked we force contractor to work around relocation not the other way around. Relocation is a primary concern and is how we build construction.

#### 6.4 Questions and Next Steps

The Commissioners asked questions and provided feedback.

What are some of the risk factors or issues that may come up? Construction dollars changing. Make sure you ensure trust with the Authority.

How do you avoid financial risk? Find out as much as you can and as quickly as you can. Each housing authority who had gone through this process has had their challenges. But nothing that would change housing authorities from doing this process. It is important that we collaborate throughout the entire process. The underwriting we have done is conservative.

At what point do we determine go, no go? We do not know what the time would be that we would need. But we would want enough time. Brawner suggest Authority start planning. Use our Admin Plan. Shuffling of positions, they find works well and find more common.

Brawner would act on behalf of the agency. They would procure everything.

If the Board decides to move forward what action is needed? The Board would need to pass a resolution, not committing but that the Authority is interested. There would have to be two initial meetings where information is provided followed by a regular board meeting where the Board would then be asked to approve resolution.

The HUD piece is not tied with the financial side. Authority will want to make sure we have done our due diligent the first four to six months. Brawner will need to do unit inspections to find out exactly what construction cost would be.

Lessons learn from your experience working with Grays Harbor? Hiring a local marketing team to help with outreach prove to be helpful and impactful. At the end of each project everyone was happy. Concerns we addressed up front.

7. **ADJOURNMENT:** There being no further business, the meeting was adjourned at 1:32 p.m.

*Carlita Mendez*

Acting

Executive Secretary

*Jaime Forsyth*

Acting on behalf of

Chairperson of the Board

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