Project: Property Management for Low-Income Housing Complex in Fair Bluff, NC
Date: September 14, 2020
Subject: Addendum No. 1

RFQ Information
As a general clarification the property management company will be required to maintain property and liability coverage on the property to sufficiently protect the structure and the building with the beneficiary as the Lumber River COG Housing Corp.

Questions
Q1: Who is financially responsible for operations? In other words, who pays if expenses exceed revenue?

A1: It is expected that the complex would generate all revenue necessary to cover all of its operations. In the event of a shortfall, it is expected that the property management company would be responsible for the coverage of those losses. The expectation is that the property management company would propose a strategy whereby funds could be put away in a profitable operating year to cover the losses in a negative operating year. There will be a funding reserve available; however, the extent of that reserve is yet to be determined as it is contingent on the final cost of the project construction and related expenses.

Q2: What are the financial objectives of the property?
A. Breakeven to provide the lowest rents possible?
B. Fund reserves for long-term sustainability?
C. Is the LRCOG hoping to take out profits?

A2: Fund reserves will be necessary for the long-term sustainability of the project. Per NCHFA guidelines, replacement reserves should equate to $250 per unit per year with a 4% increase in each subsequent year. However, this amount may be scaled back depending on the final reserve account available to the property after construction is complete. The LRCOGHC has no funds beyond the original allocation from the NC General Assembly to support this project. In conjunction, with the need to develop and maintain the long-term financial stability of the project, the goal of the project is to provide as affordable of housing as possible to low-income residents of Fair Bluff displaced by Hurricane Matthew. The LRCOG and the LRCOGHC are not looking to make a profit from the rents of this project, but to only cover the cost of the project. It is anticipated that the internal cost for the LRCOG/LRCOGHC on a yearly basis for this project would be around $10,000, this number does not included any insurance cost that the management company must secure to include but not limited to liability, property, and potentially flood insurance where the LRCOGHC will be the beneficiary of the policies, but the management company must cover the cost.
Q3: Related to #2, are rents to be reverse-engineered to cover certain amounts? Basically, are you going to set rents so that: $X$ operational costs + $Y$ reserves + $Z$ profit = $R$ rent? Or will you set the rents at $R$ to target certain occupancy and let resulting cash flow determine how much flows into reserves and/or profits?

A3: Rents should be set in a way by which ongoing operations expenses, including management fee cost and LRCOGHC cost, are covered. There should be the development of a replacement reserve account for the project. In accordance, with the QAP it is strongly suggested that this equate to $250 per unit on a yearly basis with a four percent increase per year.

Q4: Will a market study be performed to determine applicable area rents?

A4: The LRCOGHC is not currently anticipating performing a market study on its own.

Q5: Do you have reservations about anything other than full-time management and maintenance?

Q5: The LRCOGHC is open to both full-time and part-time management and maintenance services as deemed appropriate by the selected management company provided those part-time services will meet the maintenance and management needs of the residents of the complex. The LRCOGHC does reserve the right to re-negotiate with the management company to increase the proposed management and maintenance services, should complaints about the level of service arise to a level to warrant the need of such additional services.

Q6: Are there any eligibility requirements for tenants, income, or otherwise?

A6: The only eligibility requirements are those spelled out in NC Session Laws 2017-119, which provides that priority shall be given to low-income residents of Fair Bluff who were impacted by the flooding and damage from Hurricane Matthew. While the LRCOGHC reserves the right to modify its current viewpoint, the long-term strategy for the property is that in the long-term it would meet the requirements of the NC Housing Finance Agency’s tax credit requirements; however, the initial eligibility requirements are only those set forth by NC Session Laws 2017-119.

Q7: Will applicants and tenants have to certify their income?

A7: Based upon NC Session Laws 2017-119, there is as a requirement that low-income residents of Fair Bluff impacted by Hurricane Matthew be given priority for the property. It should be assumed that income certifications are necessary.
Q8: Will you allow rental vouchers?

A8: The property will accept rental vouchers.

Q9: Are there any annual compliance inspections? This relates somewhat to 6 and 7. If tenants are required to certify their income to be eligible for occupancy or certain rent levels, will you have a third-party audit for compliance on an annual or other basis to make sure that the income is being calculated correctly by the tenants and applied accurately by management? NCHFA would do this for tax credit properties, but you obviously are not bound by that structure; so we are not sure how strict you plan to be with setting and enforcing affordability metrics, as that compliance obviously necessitates more resources. We’re also not sure if you want annual CPA audits prepared as well, as that adds more operational cost.

A9: There is an annual reporting requirement as outlined in NC Session Laws 2017-119. This requires the following information to be provided to the LRCOGHC for submission to the NC General Assembly. 1) The average number of tenants occupying the housing complex. 2) The amount of rent collected. 3) A summary of repairs and general maintenance conducted on units in the housing complex. 4) Any suggestions to improve the housing complex. In addition, in conformance with NC Session Laws 2017-119, the North Carolina Housing Finance Agency (NCHFA) will perform on-site inspections to determine compliance with the Uniform Physical Conditions Standards, or acceptable replacement property standards. The NCHFA will perform remote desk audits to verify the information submitted by the owners in relation to tenant file documentation and financial records. The management company will also be required to submit unit event information in electronic format and frequency to the LRCOGHC and/or NCHFA as determined by the NCHFA. A financial audit must be performed annually and submitted to both the NCHFA and LRCOGHC. Any utilization of reserve withdrawals must have pre-approval from both the LRCOGHC and NCHFA. The management company must certify at least once annually that they are meeting compliance requirements and program regulations are being adhered to.

Q10: Can you tell me how many units, what size and rent amounts?

A10: The project consists of thirty-one units. There are two (2) – one (1) bedroom units, twenty-four (24) – two (2) bedroom units, and five (5) – three (3) bedroom units. The proposed rental amounts are to be proposed by the vendor.

Q11: Do you have other properties that could also be a management opportunity or are there additional properties planned?

A11: This is the only property that the Lumber River COG Housing Corporation owns and it is the only planned property for the Lumber River COG Housing Corporation.