

PRELIMINARY RECOMMENDATIONS OF THE FINANCIAL REPORTING SUBCOMMITTEE

Subcommittee Members:

- Joni Hartman, NOAH
- John Skelton, OHCS
- Chris Hughson, PDC
- Joan Cook, REACH
- Steve Weber, ACCESS Inc.
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Financial Reporting Background:

Lenders, investors and other agencies with a financial interest in an affordable housing project often require reporting on a project's financial performance. Information that is reported includes:

- Income;
- Expense;
- Debt; and
- Payments that are contingent upon cash flow

The information is used for a variety of purposes, including: monitoring the financial health of projects; performing risk ratings for the lender or investors' portfolio; determining cash flow for purposes of evaluating ability to pay debt that is contingent upon cash flow; and increasingly, to improve underwriting criteria for future loans and investments.

While there are a number of private lenders and investors, as well as federal agencies that require financial reporting, our work focused on three Oregon-based lenders that collect financial information, have an interest in coordination and have the ability to implement change in a reasonable time frame. OHCS and PDC each have developed reporting forms based on considerable research and discussion. NOAH does not have a specific form and accepted a variety of formats, so long and the needed information is included.

Subcommittee Discussion and Recommendations:

The subcommittee members were very committed to the project goal and there was considerable consensus regarding how the three agency's reports could be combined into a single report and still provide the information that each lender needed. There was significant discussion of each line item, including why the information was needed and how it was used by each lender, difficulties owners and property managers encountered in providing the information and how the information could be aggregated and streamlined. The resulting draft "Financial Reporting Form" is attached.

The subcommittee did not fully vet the frequency or schedule for submission of reports. This issue will be discussed in subsequent meetings.

While using a common reporting format provides economies for borrowers/owners, the current proposal is that each lender would still collect the reports and do their own analysis. It is possible that there may be some opportunity to engage with other lenders to address problem issues proactively, but this too, will need to be discussed at future meeting.

The following is a summary of issues that were discussed and conclusions that were reached:

Income:

1. Rental income will be reported separately for residential and commercial, however, commercial income will not be included if it is owned by a separate entity.
2. Rent subsidy income will be a separate line item under residential rental income, with the possibility for later addition of a drop-down menu to identify the subsidy source.
3. There was considerable research and discussion regarding how to treat the rent lost from a unit such as the resident manager unit. The majority opinion was that it should be as an expense rather than as part of vacancy.
4. It was decided that only parking, laundry and fees needed to be reported separately, and that all other miscellaneous income could be in one "other income" category.
5. A line was added for "service income."

Expenses:

1. There was significant discussion and definitions were clarified for on-site, off-site and administrative expense. Major points of discussion within these three categories included:
 - a. Landscape and maintenance performed by on-site staff will be reported as maintenance and landscaping rather than as on-site management expense.
 - b. Rent-free units such as a resident manager or other administrative units are included as a cost of on-site management, but are reported in a distinct line item to assist tracking this expense.
 - c. Compliance, supervision of on-site staff, bookkeeping and similar costs, whether performed by agency management staff or third-party property managers, will be considered an off-site management expense.
2. It was decided that bad debt would be classified as an expense rather than as an off-set to income.
3. There was significant discussion regarding classification of maintenance expenses. The following were the primary issues discussed, as well as the resolution:
 - a. Not all owners have systems to track turnover separately from maintenance. However, it was generally agreed by the subcommittee that that turnover should be reported separately due to its importance as an indicator of performance.
 - b. Public funders felt strongly about the need to track contracted services separately from maintenance functions performed by agency staff. Thus, maintenance and turnover further separated into are also separate accounts to reflect who performed the work.

- c. Landscaping and elevator are other items that were agreed were the necessary separate line items in this category.
 - d. It was agreed that expenses that were reimbursed from the replacement reserve should not be included under maintenance.
4. It was decided that three categories of utility expense: Electric and Natural Gas; Water and Sewer; and Garbage Removal, as well as an “other” category, who provide adequate information.
5. There was considerable discussion about what expense were “above the line” and what expenses were to be covered only if there was cash-flow. While there was not total agreement, the proposed form represents the consensus. The lenders had different uses for this information, which drove some of the difference in perspective, but it was felt that the detail was sufficient for each lender to analyze the expense as was appropriate to their needs. Asset management and resident services were generally considered to be contingent upon cash-flow, though reporting space is included “above the line” in the event the expense is required and allowed by lenders.
6. Replacement reserves were considered to be part of the project’s operating expense, while operating reserves were contingent upon cash flow.
7. The separate form that was developed to track reserves was heartily endorsed by all members of the committee.
8. A category for commercial expense was added after the subcommittee concluded its meeting, based on comments received.

Debt:

1. It was agreed that interest and principal on must-pay debt should be tracked separately.
2. The expenses that are contingent upon cash flow are to be reported in detail in order of priority (the waterfall).

The subcommittee recommends use of the attached Financial Reporting Form and Reserve Register.