

COLUMBIA DOWNTOWN HOUSING CORPORATION

6751 Columbia Gateway Drive, Third Floor
Columbia, Maryland 21046

March 31, 2014

The Honorable Ken Ulman
County Executive
Howard County, Maryland
George Howard Building
3430 Courthouse Drive
Ellicott City, Maryland 21043

The Honorable Calvin Ball
Chairperson, County Council
Howard County, Maryland
George Howard Building
3430 Courthouse Drive
Ellicott City, Maryland 21043

Mark Thompson
Director
Downtown Columbia Partnership
George Howard Building
3430 Courthouse Drive
Ellicott City, Maryland 21043

SUBJECT: Annual Report of the Columbia Downtown Housing Corporation

INTRODUCTION

On behalf of the Board of Directors of the Columbia Downtown Housing Corporation ("CDHC"), I am pleased to present our second Annual Report. This report is required by Section 28.204(c) of the Howard County Code and Section 5 of Howard County Council Resolution No. 154-2012, and covers three topics: (1) CDHC's progress in carrying out its obligations; (2) the financial standing of the Downtown Columbia Housing Fund; and (3) the challenges in carrying out its obligations.

BACKGROUND

The Downtown Columbia Plan (the "Plan") was adopted by Howard County (the "County") on February 1, 2010 as an amendment to the County's General Plan. The Plan is a comprehensive document that details a 30-year redevelopment process for Downtown Columbia ("Downtown"). The Plan recommends that, to facilitate its implementation, the County should create a Downtown Columbia Partnership (the "Partnership") to carry out

important services and community functions in Downtown. Howard County formally adopted this recommendation and established the Partnership by passing Council Bill No. 24-2012, which also created Title 28 of the Howard County Code (the "Code").

Under Title 28, the Partnership, among other duties, is charged with collecting and receiving the Downtown Columbia Housing Fund (the "Fund"). Section 28.116 of the Code establishes the Fund as a separate, nonlapsing fund received from various sources and made available for the purpose of providing affordable housing opportunities for households of eligible income in Downtown. Section 28.116 requires the Partnership to contract with the Downtown Columbia Housing Foundation (the "Foundation") for administration of the Fund.

Title 28, Subtitle 2 requires that the Foundation be a not-for-profit entity which includes representation from various organizations that are able to promote the purpose for which the Fund exists. Subtitle 2 grants the Howard County Council the power to recognize an eligible entity as the Foundation. On November 5, 2012, the Council adopted Resolution No. 154-2012, recognizing CDHC as the Foundation and thus as responsible for administering the Fund on behalf of the Partnership. As a condition of continued recognition, CDHC is required to furnish the County Executive, County Council, and Partnership with an Annual Report within the 90-day period following the final day of its fiscal year, which is December 31.

CDHC'S PROGRESS IN CARRYING OUT ITS OBLIGATIONS

A. Organizational Activity

CDHC filed its Articles of Incorporation with the Maryland Department of Assessments and Taxation on November 6, 2012 and held its first organizational meeting on November 13, 2012.

The Board held ten regularly scheduled meetings during calendar year 2013. As CDHC is a quasi-public entity, the Board is mindful of its obligations under the Maryland Open Meetings Act and Public Information Act. The Board has endeavored to comply with the Acts by working with the County Office of Public Information to provide the public with notice of the Board's regular monthly meetings in advance by publishing them on the County's website and keeping detailed minutes and audio recordings of its covered meetings.

At CDHC's Annual Meeting in January 2014 the Board reelected the then three current officers: Paul K. Casey as President; Roy L. Appletree as Secretary; and Bethany H. Hooper as Treasurer.

The Board has taken a number of steps to allow CDHC to carry out its obligations as the Foundation. In accordance with Sec. 28.202 of the Code, the Board has received, and continues to receive, staff and financial support from Howard County's Department of Housing and Community Development (the "Department") pursuant to a Memorandum of Understanding dated December 1, 2012. The Department's assistance has been essential to the successful administrative operation of the CDHC and its Board.

The Board recognizes that there are other potential sources of funding including charitable contributions. Board member Bruce Rothschild, Esq., volunteered his expertise to assist CDHC in pursuing tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. An application for 501(c)(3) status was filed with the IRS in April 2013. As of July 2013, the application had been assigned to an IRS exempt organization specialist and is still under review.

B. Financial Standing of the Fund

CDHC received its initial funds during this year. The event was triggered by: (1) the execution of a formal written agreement with the Partnership with the assistance of CDHC's pro bono legal counsel, Kevin Kelehan Esq.; and (2) the issuance of the building permit for the first covered housing development in Downtown, the Metropolitan.

CDHC received its initial first contribution from the Partnership on October 8, 2013 in the amount of \$2,333,867.42. Of that amount, \$2,320,000.00 was transferred to an account at Fulton Financial Advisors where it has been invested in a series of certificates of deposit in increments of \$245,000, with expiration dates ranging from six to twenty-four months. The remaining \$13,867.42 was left in the operating account to cover minor operating expenses. The Department confirmed, however, that it will continue to cover operating expenses for CDHC and, as a result, the remaining funds will be invested.

In early 2013 in anticipation of the funds, the Investment Committee of CDHC developed an RFP for cash management and investment services. The RFP was sent to six financial institutions that had expressed interest in partnering with CDHC or were recommended by board members. Three of the six initial banks responded to the RFP. After an interview process the committee chose to start a banking relationship with The Columbia Bank ("TCB") and their investment advisory firm - Fulton Financial Advisors ("FFA"). TCB and FFA were chosen primarily because they are a local bank with a long tenure in the Columbia marketplace, and have a full array of cash management services. They had the most complete response to the RFP, they had a satisfactory Community Reinvestment Act rating and their pricing was similar to or better than those of their competitors. Also, the Board liked the Cash Reserve Investment Product that allowed for an individualized versus pooled investment plan. Subsequently, FFA advised CDHC in the drafting of a board-approved simple investment policy with three main goals: (1) to protect the corpus; (2) maintain sufficient liquidity; and (3) provide positive yield.

The Investment Committee developed an RFP to identify an accounting firm to produce CDHC's first Form 990 by the May 15 filing deadline. Three firms received the RFP and all submitted proposals that the Committee reviewed. The Investment Committee recommended to the Board UHY Advisors Mid-Atlantic MD, Inc. because of its strong expertise, with a principal who specializes in nonprofit organizations. The firm is based in Columbia, MD. In February 2014, the Board approved the Committee's recommendation.

C. Steps Taken Toward Achieving Goals

CDHC is fortunate to have an exceptionally dedicated and professionally experienced Board, the members of which are committed to achieving the goals for which the Fund was established.

The Board has spent a considerable amount of time, both inside and outside of formal meetings, exploring options and opportunities to develop affordable housing in Downtown. In the process, CDHC has engaged in discussions with representatives of:

- The Howard Hughes Corporation (the Master Developer);
- Howard County Government;
- The Columbia Association;
- various private Downtown developers; and
- major employers.

The Board has discussed options for providing affordable housing using a variety of tools including loans, equity, rent subsidy, public/private financing, flexible ownership structures, grants from charitable foundations, and use of County-owned land.

In trying to move forward in the development process, CDHC has met with numerous community leaders, both elected and appointed. These meetings were generally characterized by constructive discussions in which we shared our progress and obstacles, while seeking their ideas and support.

CDHC'S CHALLENGES IN CARRYING OUT ITS OBLIGATIONS

In April 2013, as a supplement to its Annual Report, CDHC identified the perceived challenges in carrying out its obligations as well as a number of potential solutions:

Challenges

- There is no affordable housing requirement for downtown developers.
- Initial developers feel they have satisfied affordable housing obligations by paying their per unit requirement, along with meeting other County proffers and construction requirements.
- CDHC was not created until 2 ½ years into the development process, after the initial residential development deals had been negotiated and financed.
- CDHC's projected funding through 2015 is only \$4.6 million, a resource of limited impact during the early phases of development.
- CDHC's long-term, projected (but uncertain) funding of \$43 million is inadequate to reach its goal of having 15% of the planned 5,500 residential units serve households averaging 50% of County median income.
- The multi-family industry has changed in the last few years:
 - ❖ The rental market is relatively "hot"

- ❖ Financing is more readily available
- There are limited development opportunities in terms of geography and housing types.
- Only one downtown site has been identified by the developer as a potential affordable housing site.
- Land prices are very high.

Potential Solutions

- County Government pledge development opportunities on sites they will/do control, for example: fire station, library, parking garages
- Working with Howard County Housing Commission to develop sites jointly
- Consider a site specific bonus density for the development of affordable housing
- Acquire existing units
- Consider fast tracking for the development of affordable housing
- Right of first refusal to the Commission/CDHC for projects as they become available for sale

The Board is and has been dedicated to creating affordable housing in Downtown Columbia. The Board is aware of many of the financing and development techniques that have been and are being used across the country. The concept of a housing trust fund has been used with great success in various forms in neighboring counties and nationally. The Fund has strong potential as an innovative mechanism for stimulating affordable housing creation within the new developments of Downtown.

It is now more than six years after the County's Vision Statement, four years after legislative enactment of the Plan, and more than one year after the creation of CDHC. At this point, our previously identified challenges (above) remain constant and we are still trying to implement our potential solutions. Although we have made progress in certain areas, nonetheless, our experience indicates that none of our proposed solutions individually, or in combination, would necessarily be sufficient to enable CDHC to meet its objective of 15% affordable housing given CDHC's current level of funding.

We are facing major structural impediments to achieving CDHC's affordable housing goal:

1. Opportunities are limited by the prescribed geography, the development process and the upscale costs associated with Downtown vision.
2. Developers do not have any legal or financial incentive to participate in helping us achieve our goal.

We have come to the conclusion that, without changes in legislation, it would be difficult to realize CDHC's goals regarding the development of affordable housing in Downtown. We welcome the opportunity to pursue potential solutions with our elected officials, The Howard Hughes Corporation, other private developers, and community advocates. We would encourage all

stakeholders to consider changes and solutions that could encompass possible additional funding and incentives to promote meaningful participation by the development community.

CONCLUSION

As we emphasized in last year's Annual Report, the County's General Plan and the Downtown Columbia Plan both reflect the notion that the availability of affordable housing is vital to the County's employment growth and that it improves the County's economic development prospects. CDHC is proud to be tasked with the goal of ensuring the success of this critical component to the Downtown redevelopment. We believe that with the implementation of meaningful solutions to the challenges we face, including appropriate modifications to the legislation, we will be able to achieve those goals.

A founding principle of Columbia is that a diverse housing community with a broad range of incomes is conducive to a rich culture. The Board of CDHC envisions nothing less than continuing the principles of Columbia in the redevelopment of Downtown. We continue to look for the support and assistance with those who share our vision.

Sincerely yours,

A handwritten signature in blue ink that reads "Paul K. Casey". The signature is fluid and cursive, with a large initial "P" and "C".

Paul K. Casey, President

cc: Board of Directors

Roy Appletree
Jesse Chancellor
Peter Engel
Bethany Hooper
Andrea Ingram
Brian Kim
Maria Miller
David Raderman
Bruce Rothschild
Michael Skojec
Stephen Smith
Russell Snyder
Patricia Sylvester
Rev. Robert Turner
John DeWolf, Ex Officio

Kevin Kelehan, Esquire, Counsel
Thomas Carbo, Director, Dept. of Housing and Community Development