

## PRESIDENT'S MESSAGE

*Property Tax Relief -- It Could Make All the Difference*



*Don Sterhan*  
*MPEG President & CEO*

When it comes to housing, most all of our communities share one thing in common – the desire to have quality, affordable housing available to local residents. Even so, there are often serious challenges that must be overcome to be successful in this quest, regardless of whether we're talking about work force housing (market rate) or housing options for low-to-moderate income families.

Project financing is among the most serious challenges facing communities and developers that seek to build new housing or rehab existing buildings. Often times the economics of a deal are out of sync ... likely tenants simply can't afford to pay the rent levels that are required to achieve a positive cash flow. Certainly the capital structure and the overall financing package must be designed to ensure the economics of a project are workable and sustainable.

It is for this reason that "soft dollar" contributions can be so vital in making a project work. Soft dollars (or soft money) is the term used to describe capital introduced to a project under very favorable terms. Soft money can come in various forms, maybe in cash or maybe as a hard asset to the project (such as land). Perhaps it is a grant or a donor gift, or perhaps a low-interest loan with lenient repayment terms. Specific to low-income housing, traditional sources of soft dollars include a community-sponsored grant, HOME funds, CDBG funds or perhaps a loan from the Federal Home Loan Bank (FHLB).

The ability to raise soft dollars as a part of the financing structure can make all the difference in whether or not a project succeeds. And especially with low-income tax credit housing (LIHTC) projects, given the current pricing of tax credit equity, the need for soft dollars is critically important. These soft dollars are an effective way to bridge the financing gap that we see in many of today's projects – projects that are necessary to support a community's way of life.

OK, now, there is one more very important source of soft dollars that must be noted here. Not all soft dollars have to come into a project upfront and in a lump sum. In fact, any type of capital assistance that can be gained over time is also an excellent source of soft money. For instance, working with the City or County to offer real estate property tax relief can be a very effective tool in helping a project to stabilize operations and achieve positive cash flow. Property tax relief can come in a number of ways, from an outright waiver or exemption from the tax (whether temporary or permanent) to a graduated payment schedule as the project matures. Some communities have opted for a Payment in Lieu of Taxes (PILOT) program, whereby the project owner/developer negotiates a tax payment that produces a win-win for all parties concerned.

Many communities have been quite progressive in exploring these options, while other communities have demonstrated an obvious reluctance. This type of approach and decision is a local one, but make no mistake about it, where low-income housing is concerned, property tax relief (in some form or fashion) can often make the difference in whether a project gets built. For this reason, I would encourage local municipalities to keep an open door and to examine what alternatives they can offer. The quality of life in our communities is influenced and often judged by the availability of affordable housing ... so together let's embrace the responsibility and look for solutions.

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## OUR VISION

*Mountain Plains Equity Group, Inc., is dedicated to the development of affordable housing units. By providing equity investment capital and other key resources to project developers, MPEG is working to enhance the quality of life and to promote sustainable growth in our communities.*



## GRAND OPENINGS

**Sunshine Park Townhomes** - The newly constructed Sunshine Park Townhomes in Aberdeen, South Dakota celebrated its Grand Opening on October 28th. The 28-unit multifamily project received broad-based financial support and encouragement from the local community. Including property tax abatement for at least five years, the City and County waived a number of fees related to the building project. Jody Zueger, the Executive Director of the Aberdeen Housing Authority, offered thanks to the team of people that made the project a reality.

“ **Brand new Sunshine Park Townhomes celebrates grand opening** ”

Despite cool and windy fall weather, the event was well attended by local dignitaries, neighbors, contractors, community advocates, Board members and the local Chamber of Commerce. Special guests included Jeff Mitchell, Executive Director of Homes Are Possible, Inc., City Manager Lynn Lander, Mark Lauseng, Executive Director of the South Dakota Housing Development Authority, and Lonnie Anderson, Board Chairman of the Aberdeen Housing Authority.



*Sunshine Park Townhomes.*

Several entities came together in the planning and development of this worthwhile project. Homes Are Possible, Inc., Aberdeen Housing Authority, and Beyond Shelter, Inc., were all instrumental in bringing this project to fruition. Dan Madler was on hand to represent Beyond Shelter, a co-developer of the project and a driving force behind its timely completion.

Also on hand was MPEG President Don Sterhan. Don highlighted MPEG's previous experience in working with Beyond Shelter and he welcomed the opportunity to invest in the community of Aberdeen. In that spirit, Don noted the important role and participation of Wells Fargo Bank, the sole tax credit investor that contributed over \$2.6 million to the project. Our sincere congratulations to the community of Aberdeen – and the residents of Sunshine Park!



*Grand opening of the Waters Edge Apartments.*

**Waters Edge Apartments** – Congratulations to Community Development, Inc. (CDI) on the completion of the Waters Edge Apartments in Williston, North Dakota. This project will provide an additional 51 multifamily housing units to the citizens of Williston. CDI recently received certificates of occupancy for each of the 8 buildings, and is now working diligently to lease units. The Grand Opening of the Waters Edge Apartments occurred on November 10th.

Honored guests attending the ribbon cutting ceremony included Mike Anderson, Executive Director of the North Dakota Housing Finance Agency, Jasper Schneider, State Director of North Dakota Rural Development and Ward Koeser, Mayor of the City of Williston. Representatives of organizations such as the North Dakota Department of Commerce, First International Bank & Trust, CommunityWorks North Dakota and Tri-County Regional Development were also in attendance. In addition, several representatives of CDI, Scott Fitzpatrick of MPEG, Board members of the local Chamber of Commerce, contractors, community advocates, and local residents were present to celebrate the grand opening event.



## NEIGHBORWORKS MONTANA

NeighborWorks® Montana (NWMT) operates a **Real Estate Acquisition and Development Fund**, a valuable financing tool that has been established to make short-term loans to its network partners and non-profit sponsors of housing development projects. NWMT is a certified Community Development Financial Institution (CDFI) and has received funding through the Department of Treasury to make loans for housing projects, in addition to a lending pool capitalized by a \$2.5 million loan from NeighborWorks Capital Corporation. Loan funds are available for pre-development, acquisition and development of housing projects. For more information, please contact Maureen Rude at 406-458-8704.

## NASLEF CONFERENCE

Four members of MPEG were in attendance at the 17th Annual Conference of the National Association of State and Local Equity Funds (NASLEF) held September 22-24 in Boston, MA. Conference attendees received updates from industry experts on a variety of topics, including asset management best practices, due diligence procedures and pricing trends in tax credit investments. The conference is an excellent opportunity to compare notes and network with peers from across the country.

MPEG is an active member of NASLEF, a professional organization formed in 1994 to help support the efficient management of state and local equity funds. NASLEF members are mission driven and willing to invest in smaller projects, serving rural areas or economically distressed neighborhoods, where investments in housing can have the greatest impact on low-to-moderate income families. Collectively, NASLEF members have created or rehabilitated over 100,000 units of affordable housing and have placed \$6.5 billion in tax credit equity capital throughout the United States.

## CURRENT TAX CREDIT RATES

LIHTC RATES	2009		2010	
	30%	70%	30%	70%
January	3.28%	7.65%	3.32%	7.76%
February	3.23%	7.53%	3.36%	7.84%
March	3.27%	7.63%	3.35%	7.81%
April	3.29%	7.67%	3.35%	7.82%
May	3.28%	7.65%	3.36%	7.85%
June	3.30%	7.71%	3.35%	7.81%
July	3.35%	7.82%	3.31%	7.73%
August	3.35%	7.82%	3.30%	7.69%
September	3.36%	7.84%	3.28%	7.65%
October	3.33%	7.78%	3.25%	7.58%
November	3.33%	7.76%	3.24%	7.57%
December	3.34%	7.79%		

**For 70% credit projects, the Housing and Economic Recovery Act of 2008, allows buildings placed in service after July 30, 2008 and before December 31, 2013, to use the minimum rate of 9%. No similar flat rate was set for 30% credits.**

## MPEG DONATES

*\$105,000 to charitable organizations*

Mountain Plains Equity Group, Inc. (MPEG) was originally formed in 2003 through a collaborative effort involving the North Dakota Housing Finance Agency, the Montana Board of Housing, and the Wyoming Community Development Authority. In honor of this initial support from the State agencies, and in recognition of its long-standing Board of Directors, MPEG announced during the summer of 2010 that donations in the amount of \$35,000 each were presented to three charitable organizations in each of the sponsoring states.

On June 29th, Gene Leuwer, who served on MPEG's Board of Directors, joined with MBOH Executive Director Bruce Brensda and MPEG President Don Sterhan to present a \$35,000 check to the Montana chapter of the **National Alliance for the Mentally III (NAMI)**. According to Matt Kuntz, the Executive Director of NAMI Montana, the funds will be utilized to purchase a software package that will allow Montana's mental health service providers to better understand their clients' progression in treatment and will provide warning if a client's mental illness is deteriorating.

On July 8th, Steve Grimshaw, who also served on MPEG's Board of Directors, joined with Don Sterhan and WCDA Executive Director David Haney to present a \$35,000 check to Jessica



*Charitable check presentation, Wyoming.*

Lindsley of **Habitat for Humanity of the Eastern Bighorns (HFHEB)**. The contribution was unrestricted and HFHEB, in turn, has allocated a pro rata share of the \$35,000 donation to its six separate divisions in Wyoming.

Finally, On July 23rd, Mike Fladeland, past Chairman of MPEG's Board of Directors, and fellow Board member Tom Redmann joined with NDHFA Executive Director Mike Anderson to present a \$35,000 check to Jessica Thomasson of **Lutheran Social Services Housing, Inc.** According to Bob Sanderson, CEO



*Check presentation to the Lutheran Social Services Housing, Inc.*

of Lutheran Social Services of North Dakota (LSS), the funds will help LSS continue its efforts to build affordable rental housing throughout rural North Dakota.

## **MPEG HAS MOVED**

*To a new location*

We're pleased to report that MPEG has moved its offices to a new location on the 6th floor of the Miller Building in downtown Billings, Montana. Although our location and mailing address has changed, all other contact information remains the same. If you're ever in the neighborhood, please stop by to say hello and tour our new office suite.



**2825 3rd Avenue North, Suite 600  
Billings, MT 59101**

## **NEW TO MPEG**

*Welcome Tim Morgan and Johanna Kinkade*



*Tim Morgan  
Construction Manager*

**Tim Morgan** joined MPEG in September 2010. In his role as Construction Manager, Tim is responsible for architectural, engineering and environmental due diligence, as well as evaluation of hard cost budgets and construction oversight. Tim works closely with the MPEG team and developer clients to identify development risks and evaluate ways to effectively address those risks to achieve successful completion of the project. In addition, Tim works with developers and contractors to facilitate a smooth construction phase, meeting targeted schedules and on-budget completion.

Prior to his association with MPEG, Tim developed his expertise as an architect, construction project manager and development risk manager for commercial and affordable housing projects. As a registered architect in 5 western states, Tim owned and managed his own successful architectural practice for 20 years. He has worked as a project manager for a regional construction company completing numerous projects in Colorado, Nebraska and Wyoming. Most recently, he has served as a development risk manager for MONY Life, MMA Realty Capital and Credit Suisse/Column Capital, overseeing the architectural, engineering and environmental due diligence for commercial, multifamily and LIHTC projects and managing construction oversight and funding.



*Johanna Kinkade  
Office Manager*

**Johanna Kinkade** also joined MPEG in September 2010 as Office Manager and Administrative Assistant. In this role, Johanna implements and manages office procedures designed to ensure efficient and timely workflow. In addition, Johanna works closely with the president of MPEG and the MPEG Management Team to ensure a professional relationship with vendors, institutional investors, developers, nonprofit agencies and public officials.

Prior to joining MPEG, Johanna owned and operated a retail service business. Johanna has a varied background of experience with computers, office administration and office management, including several years experience as legal assistant in a law office specializing in Criminal Defense, Estate Planning and Corporate law.

Johanna is originally from Orange County, California, where she graduated from Bolsa Grande High School. She is a graduate of San Diego State University in San Diego, California with a degree in Business Administration.

## **MPEG PARTICIPATES IN Habitat Build**

Three members of the MPEG team participated in the Habitat for Humanity construction project on August 14th in Billings, Montana. Approximately 2/3 of the house was built at the Montana Fair. When



*Seana Rau takes charge of the saw.*

the fair closed on August 23rd, the house was moved to its permanent location. Upon completion House #52 will be occupied by Amanda Nelson and her two children.



*Scott Fitzpatrick helps with framing.*

The MPEG management team and staff want to extend our sincere congratulations to Amanda, her family, and all of the hard working volunteers.

## UNDERWRITING UPDATE

### Underwriting Projected Operating Expenses



by Scott Fitzpatrick  
Acquisitions Manager

Our underwriting process for operating expenses has traditionally included comparisons to comparable projects in our portfolio. However, as underwriting standards have intensified over the past 2-3 years, we now require comparisons to the sponsor's and/or property manager's portfolio as well.

Here are some thoughts to keep in mind as you structure your projects:

- Involve your property manager early; we will require they approve the projected operating budget prior to closing.
- In addition to looking at historical data, obtain quotes for categories such as insurance or trash removal; don't skimp on maintenance and repairs.

- Visit with the local officials to accurately forecast property taxes; secure letters that clearly outline and estimate your likely tax liability.
- For acquisition-rehab projects, base your operating expense budget on the prior year's audited expenses for that same project. History has taught us that maintenance and repair expenses do not show significant decreases post rehabilitation.
- Variances from your portfolio, as well as the syndicator's portfolio, will need explanation. While a projected operating budget may be achievable, obtaining investor approval is unlikely without sufficient documentation.

Be conservative in your projections and be ready to provide supporting documentation. In the long run, it is better to underwrite with a conservative budget (and perhaps reduced debt level) than to find yourself needing to fund future operating deficits. A sponsor portfolio that is poorly maintained, with projects on the watch list, are factors that investors take into consideration.

## CALENDAR UPCOMING NOTICES & EVENTS

### Montana:

- LIHTC Application Deadline  
January 21, 2011

### North Dakota:

- LIHTC Application Deadline  
February 28, 2011
- Statewide Housing Conference  
Bismarck, ND  
February 9-10, 2011  
Conference registration materials available the week of December 27, 2010.

### Colorado:

- First Round - Letter of Intent Deadline  
February 1, 2011
- First Round - LIHTC Application Deadline  
March 1, 2011
- Second Round - Letter of Intent Deadline  
June 1, 2011
- Second Round - LIHTC Application Deadline  
July 1, 2011

### Wyoming:

- LIHTC Application Deadline  
January 31, 2011

### South Dakota:

- LIHTC Application Deadline  
February 28, 2011

### Other Notices and Events:

- National Council of State Housing Agencies  
2011 HFA Institute  
Open to HFAs, Affiliates, and the Public  
January 9-14, 2011, Washington D.C.  
<http://www.ncsha.org/event/2011-hfa-institute>
- Novogradac & Company  
Tax Credit Housing Finance Conference  
December 2 - 3, 2010  
Pre-Conference Workshop: LIHTC Basics (Dec. 1)  
Pre-Conference Workshop: LIHTC Financing (Dec. 1)  
Property Compliance Workshop (Dec. 2-3)  
<http://www.novoco.com/events/index.php#>