



**To:** Todd Fowler, Director of Special Assets  
Florida Housing Finance Corporation

**From:** William J. Metler, Senior Credit Underwriter  
First Housing Development Corporation

**Date:** July 20, 2016

**Subject:** Laurel Villas  
TCEP RFP 2010-04 / 2009-228C / 2010-037CX / 2011-018 CX  
Withdrawal and Transfer of Managing Member Ownership Interest /  
Release of Guarantors

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At the request of Florida Housing Finance Corporation (“FHFC”), First Housing has reviewed a request dated March 3, 2016 from Mr. Robert M. Picerne, sole member of the Managing Member of Laurel Villas Associates, LLC (“Borrower”) requesting FHFC’s consent to the transfer of Picerne Laurel Villas, LLC’s (“Managing Member” or “Picerne GP”) .0051% managing member interest to the .0049% member interest, Deland LVI, Inc. (“Deland GP”) and withdrawal of Picerne GP, as managing member of the Borrower. Also, the request includes the release of the Picerne GP, and its affiliate Picerne Investment Corporation and Robert M. Picerne, individually (collectively “Picerne”) from all guarantees made in connection with Laurel Villas for the benefit of Florida Housing.

First Housing has been requested to determine whether Deland GP, whose sole shareholder is Deland Housing Authority (“DHA”), has the prerequisite financial strength and experience to successfully own, operate and assume the Managing Member ownership interest and provide the ongoing guarantees for the development.

### **Overview**

Laurel Villas is a 120 unit townhome style residential development constructed in 2012 and located in Deland, Volusia County, Florida. The development consists of three (3) two bed/two bath units, fifty-seven (57) two bed/two and a half bath units, three (3) three bed/two bath units, and fifty-seven (57) three bed/two and a half bath units.

An Extended Low-Income Housing Agreement (“ELIHA”) dated November 15, 2010 and

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amended April 30, 2012 requires the following set asides for a term of fifty (50) years:

- 10% of the units (12 units minimum) set aside at or below 40% of the AMI
- 90% of the units (remaining units) set aside at or below 60% of the AMI

**Existing Debt**

The existing Ownership entity will remain the same. The underlying Managing Member interest is contemplated to be transferred with this transaction. The Borrower executed a first mortgage with DHA in the original amount of \$2,185,016. Annual payments are based on a 3% interest rate with payments made from available cash flow. As of December 31, 2015, the outstanding principal was \$2,184,916. All unpaid principal and interest are due upon maturity on October 31, 2040.

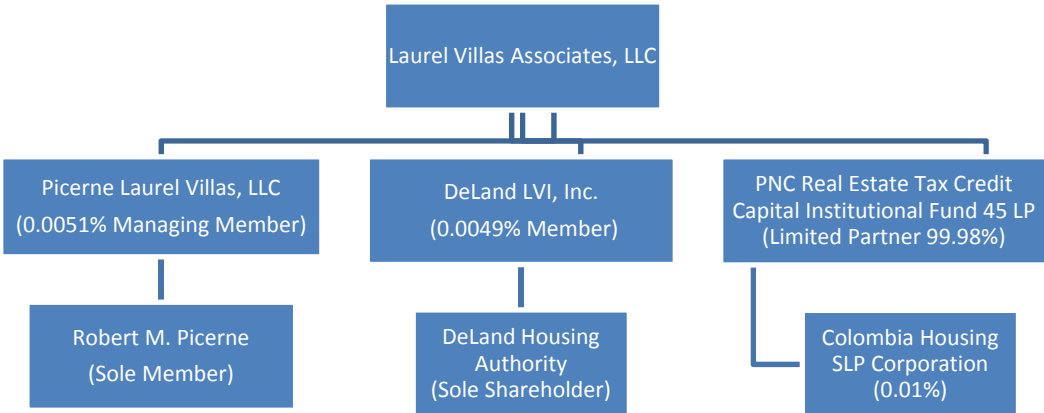
The Borrower was allocated \$5,000,000 from the Tax Credit Exchange Program (“TCEP”) which is provided in the form of a fifteen year term, forgivable loan, where 1/15<sup>th</sup> of the original principal will be forgiven annually after being placed in service as long as the development remains in compliance. The TCEP encumbers the development in a first lien position with the exception of the priority DHA has to debt service. The TCEP mortgage was given first lien position to mitigate the risk of DHA being a related entity to the Deland GP.

A third mortgage of \$150,000 was provided by Volusia County in the form of a non-amortizing 0% interest forgivable loan with a term of thirty (30) years.

PNC Bank provided \$10,870,913 in Housing Credit Equity.

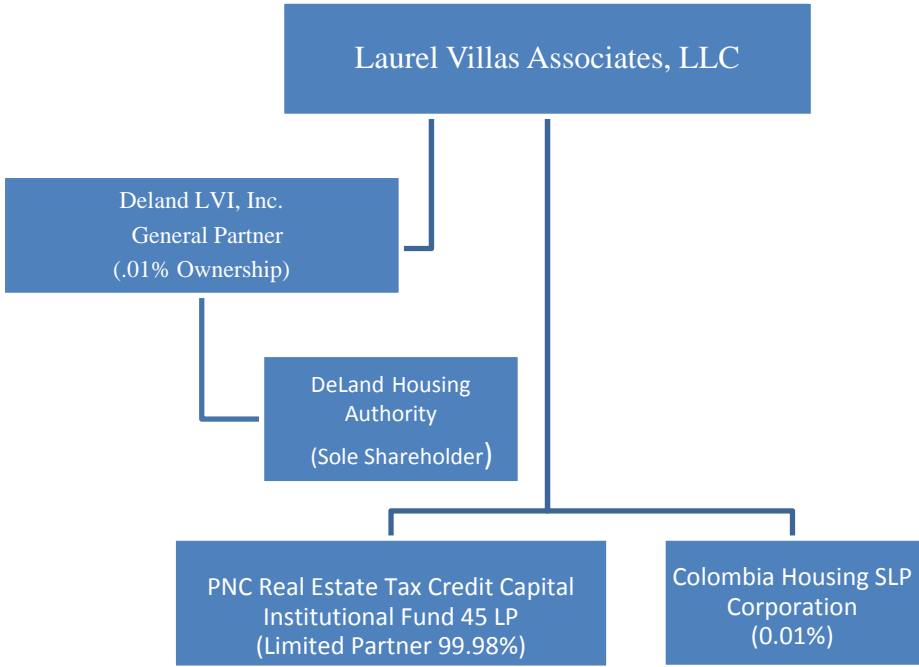
A comparison of the existing ownership structure and the proposed ownership structure follows:

**Existing Ownership Structure:**



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**Proposed Ownership Structure/Background**



The contact information for Deland Housing Authority is as follows:

Ms. Milagros Quinones, Executive Director  
Deland LVI, Inc.  
c/o Deland Housing Authority  
1450 S. Woodward Blvd., #200A  
Deland, Florida 32720  
(386) 734-2564 Telephone

Deland Housing Authority has been in existence since 1972, with the development of over 200 Public Housing units. It administers 749 vouchers in the West Volusia area. Ms. Milagros Quinones is the Executive Director of the Deland Housing Authority. Ms. Quinones began her career in housing in Springfield Massachusetts in 1983. In 1992, Ms. Quinones joined the Deland Housing Authority, as the Director of its Section 8 program. Ms. Quinones was instrumental in implementing the Family Self Sufficiency program and maintaining an overall annual score of 98% on the U.S. Department of Housing and Urban Development's Section Eight Management Assessment Program. In 1999, while still working as the Section 8 Director for the Deland Housing Authority, Ms. Quinones implemented the Section 8 program for the Seminole County Housing Authority and trained the Executive Director and staff of the Seminole County Housing Authority in the operation and administration of the Section 8 program. In 2001, Ms. Quinones was promoted to Deputy Director of the Deland Housing Authority. Ms. Quinones worked with the Executive Director in managing the day-to-day operation of the Deland Housing Authority, including finance, planning and development,

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program administration, Section 8 and property management. During this time, Ms. Quinones worked extensively on Laurel Villas. In 2012, Ms. Quinones was appointed the Executive Director of the Deland Housing Authority. Ms. Quinones has been extensively involved in the development of the Laurel Villas and Laurel Court developments.

First Housing received and reviewed the 2015 and 2014 annual audited financial statements for the Deland Housing Authority. The results of that review follow:

Deland Housing Authority 2015 Audited Financial Statements June 30, 2015	
Cash and Equivalents	\$2,402,524
Total Assets	\$9,350,965
Total Liabilities	\$2,352,944
Net Assets (Deficit)	\$6,998,021

Deland Housing Authority 2014 Audited Financial Statements June 30, 2014	
Cash and Equivalents	\$3,470,291
Total Assets	\$6,908,763
Total Liabilities	\$791,028
Net Assets (Deficit)	\$6,117,735

**Development Economics**

First Housing received and reviewed the 2014 and 2015 annual audited operating statements for the Development. The results of that review follow:

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<b>Laurel Villas</b>		<b>December 31, 2014</b>	<b>Per Unit</b>	<b>December 31, 2015</b>	<b>Per Unit</b>
		<b>Audited</b>		<b>Audited</b>	<b>Per Unit</b>
<b>OPERATING PRO FORMA</b>					
<b>INCOME:</b>	Gross Potential Rental Income	\$755,370	\$6,295	\$766,868	\$6,391
	Other Income	\$158,030	\$1,317	\$157,154	\$1,310
	Miscellaneous	\$2,305	\$19	\$2,569	\$21
	Gross Potential Income	\$915,705	\$7,631	\$926,591	\$7,722
	Less:				
	Physical Vac. Loss	\$28,445	\$237	\$13,083	\$109
	<b>Total Effective Gross Income</b>	<b>\$887,260</b>	<b>\$7,394</b>	<b>\$913,508</b>	<b>\$7,613</b>
<b>EXPENSES:</b>	Fixed:				
	Real Estate Taxes	\$18,000	\$150	\$18,000	\$150
	Insurance	\$79,085	\$659	\$71,748	\$598
	Variable:				
	Management Fee	\$44,818	\$373	\$47,156	\$393
	General and Administrative	\$44,748	\$373	\$50,476	\$421
	Payroll Expenses	\$151,912	\$1,266	\$165,645	\$1,380
	Utilities	\$145,898	\$1,216	\$143,465	\$1,196
	Marketing and Advertising	\$13,140	\$110	\$9,608	\$80
	Maintenance and Repairs/Pest Control	\$130,529	\$1,088	\$125,411	\$1,045
Reserve for Replacements	\$36,000	\$300	\$36,000	\$300	
	<b>Total Expenses</b>	<b>\$664,130</b>	<b>\$5,534</b>	<b>\$667,509</b>	<b>\$5,563</b>
	<b>Net Operating Income</b>	<b>\$223,130</b>	<b>\$1,859</b>	<b>\$245,999</b>	<b>\$2,050</b>
	<b>Debt Service Payments</b>				
	First Mortgage - Deland Housing Authority	\$65,547	\$546	\$78,601	\$655
	Second Mortgage - FHFC TCEP	\$0	\$0	\$0	\$0
	Third Mortgage -Volusia County	\$0	\$0	\$0	\$0
	Other Fees -	\$12,548	\$105	\$12,835	\$107
	<b>Total Debt Service Payments</b>	<b>\$78,095</b>	<b>\$651</b>	<b>\$91,436</b>	<b>\$762</b>
	<b>Cash Flow after Debt Service</b>	<b>\$145,035</b>	<b>\$1,209</b>	<b>\$154,563</b>	<b>\$1,288</b>
	<b>Debt Service Coverage Ratios</b>				
	DSC - First Mortgage - Deland Housing Authority	3.40		3.13	
	DSC - Second Mortgage - FHFC TCEP	3.40		3.13	
	DSC - Third Mortgage - Volusia County	3.40		3.13	
	DSC - All Mortgages and Fees	2.86		2.69	
	<b>Financial Ratios</b>				
	Operating Expense Ratio	74.85%		73.07%	
	Break-even Economic Occupancy Ratio (all debt)	81.06%		81.91%	

Note to Operating Pro Forma:

1. The "Other Fees" line item includes FHFC fees for the TCEP loan.
2. The management company has indicated that the development was 93.7% occupied as of May 31, 2016.

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**Management Agent**

The existing management agent is Picerne Management Corporation. First Housing reviewed a Management Agreement, dated November 1, 2010 indicating a management fee equal to the greater of \$3,850 or 6% of the gross monthly collections. The selection of the management company has been approved by Florida Housing's Asset Management Department. Continued approval is contingent upon ongoing satisfactory performance.

The management contact person is:

Mr. Richard R. Haley, CFO  
Picerne Management Corporation  
247 N. Westmonte Drive  
Altamonte Springs, Florida 32714

**Status of Development Compliance**

First Housing is the Compliance Monitoring agent for the referenced development. An Annual Management Review and Physical Inspection was completed on January 28, 2015. The Annual review was satisfactorily closed out on April 15, 2015.

According to FHFC's Asset Management Noncompliance Report, dated April 1, 2016, the development team has no noncompliance items outstanding.

According to FHFC's Past Due Report, dated May 11, 2016, the development team has no past due items outstanding.

**Recommendation**

First Housing recommends approval of the withdrawal of Picerne Laurel Villas, LLC from the company and for Deland LVI, Inc. to assume the position of 100% managing member of the Borrower. In addition, First Housing recommends the release of Picerne GP, Picerne Investment Corporation, and Robert M. Picerne, individually from all guarantees made in connection with Laurel Villas. First Housing's review indicates that Deland LVI, Inc. has the prerequisite financial strength and experience to successfully own and operate the subject without Picerne Laurel Villas, LLC.

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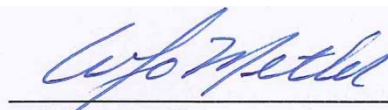
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**Conditions**

The following is a summary of conditions outlined in this report:

1. The Borrower and Deland GP shall agree that through the regulatory period, Florida Housing and their compliance monitoring agent shall have access to the property to perform their management review and physical inspection during the remaining affordability period.
2. Borrower and Deland GP are to execute any and all assignment and assumption documents that FHFC deems necessary to effectuate the transfer including but not limited to new and existing guarantees, if applicable.
3. Payment of any outstanding arrearages to FHFC, its legal counsel, Servicer or any agent or assignee of FHFC for past due issues applicable to the development team (Borrower or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of a Borrower or a Developer).
4. Confirmation of approval of transfer of General Partnership Ownership interest by Volusia County and the equity provider, if applicable.
5. Review and approval of all loan documents consistent with the terms outlined above by FHFC, its legal counsel and Servicer.
6. Satisfactory resolution of any outstanding FHFC noncompliance and past due items.
7. Verification that all Insurance Certificates are current and acceptable to Servicer and FHFC.
8. Receipt of a non-refundable assumption and transfer fee equal to one-tenth of one percent of the outstanding TCEP principal balance on the date of closing.
9. All other due diligence required by FHFC, its legal counsel and Servicer.

Prepared by:



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William J. Metler  
Asst. Vice President  
Senior Credit Underwriter