

RENT RESTRICTED HOUSING PROJECTS VALUATION COMMITTEE

July 24, 2018

Tax Commissioners Conference Room

Committee Members:

Present: Jim Koch, Lori Johnson, Pat Sandberg, John Weichmann (telephonically)

Absent: None

Others Present:

Jon Cannon, Counsel to the Committee

Blake Simpson, Counsel to the Committee

David Levy, Baird Holm

Bridget Barclay Sudol, Recorder for the Committee

Proceedings:

Meeting called to order at 10:05am by Chair, Jim Koch

Provisions of the Open Meetings Act were read and made available in the room.

Public Comments

Chair Koch asked for any public comments or concerns. Levi expressed CDI concerns on the cap rate. In particular, while he felt it was too low, he also stated that a cap rate that varies across the state might be beneficial. He concluded by asking that the committee look at the possibility of varying cap rates. When asked if he is aware of legislation proposals regarding differing cap rates, Levy responded that he wanted to talk with the committee before proceeding legislatively.

November 16, 2017 meeting minutes were read. Johnson moved to approve; Weichman seconded. Minutes were approved as read, with one abstaining.

Preliminary Review of Income and Expense Information for 2018

The raw data and the process moving forward was discussed. After all information is compiled, a summary of information will be sent to the counties via secure email by August 15, per statute. Following that, individual analyses will occur before the cap rate is set. While the band of investment technique is set in statute for analysis purposes, other analytic data is allowed as well. Johnson asked when the information was provided last year. Cannon answered that the information is not at the same stage this year as it was last year, so it might be a few weeks later.

Other Business

While only one meeting to set the cap rate is required to be held, past practice has been that once the information is received and cleaned up, another meeting is scheduled. A suggestion of Monday, September 17 at 10:00am was offered and accepted.

Sandberg moved to adjourn; Johnson seconded. Motion passed.

Meeting adjourned at 10:31am.

Rent-Restricted Housing Projects Valuation Committee
Tax Commissioners Hearing Room-2nd Floor-Nebraska State Office Building
301 Centennial Mall South, Lincoln, NE

The September 17, 2018, meeting called to order at 10:00 a.m. by chair Jim Koch.

Committee members present included Jim Koch, Chair, Lori Johnson, Patricia Sandberg and John Wiechmann.

Others present included Ruth Sorensen, Property Tax Administrator, John Donahue, Patrick Waldron, Barb Oswald, and David Levy. Those attending by phone were Blake Simpson, Andrew Lines and Bryan Hill

Jim Koch read the open meetings law provisions and were also made available in the room.

Jim asked for public comments from others in attendance and nothing was discussed at this time.

The minutes of the last meeting of July 24, 2018 were read. Motion was made by Patricia Sandberg to approve the minutes and Lori Johnson seconded the motion. All members were in favor of the motion.

Lengthy discussion was held concerning if data would support an 80% equity contribution and the 20% debt contribution. Ms. Johnson commented 199 projects out of 319 gave sufficient information to support a 68% equity contribution and a 32% debt contribution. Break down of the information by location of Lincoln/Omaha and the rest of the state is not materially much different so left the rate the same.

Mr. Andrew Lines submitted a letter to the committee outlining five recommendations as to his opinion that the equity to debt ratio and indicated that the capitalization rate is too low. (The letter is available at http://www.revenue.nebraska.gov/PAD/rent-restricted_housing/misc_docs.html.)

Jim Koch challenged that in preparation for the next meeting the market based cap rate will consider if geography makes a difference and also type of project, whether large apartments or duplexes. John Wiechmann will study information on the equity return and delineation for geography, Lori Johnson will run analysis based on location.

The next meeting is set for October 23rd, 10:00 a.m. at the same location.

No further business the meeting was moved to adjourn by Patricia Sandberg and seconded by Lori Johnson, The meeting adjourned at 10:40.

Submitted by Barb Oswald

Rent-Restricted Housing Projects Valuation Committee
Tax Commissioners Hearing Room-2nd Floor-Nebraska State Office Building
301 Centennial Mall South, Lincoln, NE

The October 23, 2018, meeting called to order at 10:00 a.m. by chair Jim Koch.

Committee members present included Jim Koch, Chair, Lori Johnson, and Patricia Sandberg. John Wiechmann attended by telephone.

Others present included Blake Simpson, Bryan Hill, David Levy and Rob Woodling. Jon Cannon attended by telephone.

Jim Koch read the open meetings law provisions and they were available in the room.

Jim asked for public comments from others in attendance. Rob Woodling discussed the market rate rents appearing to be double counted and the possibility of the committee providing guidance to county assessors on the issue. David Levy discussed the cap rate of 6 ½ % is to low compared to other states. John Wiechmann asked if Mr. Levy knew if the cap rates from the other states were loaded or unloaded, Nebraska is unloaded. Mr. Levy said he would get a list but thought that most states were unloaded.

The minutes of the last meeting of September 17, 2018 were read. The motion was made by Patricia Sandberg to approve the minutes and Lori Johnson seconded the motion. All members were in favor of the motion.

Discussion was held concerning equity to debt ratios breaking the information down into various scenarios. The information was divided between Douglas and Sarpy County, Lancaster County, Buffalo and Hall County and the remainder of the state. Both Lori Johnson and John Wiechmann had compiled information and found they were similar in the conclusion.

Discussion was held concerning the debt rate and it was again broken down by the various locations of Douglas and Sarpy County, Lancaster County, Buffalo and Hall County and the remainder of the state. Lori discussed several examples based on varying mortgages.

The committee felt the data they have to work with has improved and would like to take a closer look at the debt/equity information to determine if a different cap rate could be set for Douglas and Sarpy County, Lancaster County, Buffalo and Hall County and the remainder of the state. Lori Johnson and John Wiechmann will compile another review of the numbers and have information available at the next meeting. The committee felt two more meetings are necessary to review and set the cap rate.

The next meeting is set for November 8th at 10:00 a.m. at the same location.

With no further business, the meeting was moved to adjourn by Patricia Sandberg and seconded by Lori Johnson, The meeting adjourned at 10:56 a.m.

Submitted by Barb Oswald

Rent-Restricted Housing Projects Valuation Committee
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The November 8, 2018, meeting called to order at 10:03 a.m. by chair Jim Koch.

Committee members present included Jim Koch, Chair, and Lori Johnson. Members attending by telephone were Patricia Sandberg and John Wiechmann.

Others present included Blake Simpson and David Levy. Those attending by telephone included Bryan Hill, Barb Oswald, Andrew Lines and Dr. Steve Schultz, Professor from the University of Nebraska, Omaha.

Jim Koch read the open meetings law provisions and reported that they were also available in the room.

Jim asked for public comments from others in attendance, Mr. Levy reserved his comments until later in the meeting.

The minutes of the last meeting of October 23, 2018 were read. Correction was made in reference to Rob Woodling name. The motion was made by Patricia Sandberg to approve the minutes as corrected and Lori Johnson seconded the motion. All members were in favor of the motion.

Discussion was held concerning the income and expense information received for 2018. The question is does the data support 80%/20% capital stack. Discussion of the information among the committee members concluded that the capital stack does not support an 80%/20% breakdown.

The members of the committee broke down information into the following groupings. During the discussion, it was determined that Hall/Buffalo County did not differ enough from the rest of the state and would be included with the rate for the rest of the state.

Douglas/Sarpy Counties is 50%/50%

Lancaster County is 70%/30%

Rest of the State is 65%/35%

John Wiechmann made a motion to adopt the three breakdowns for the capital stack by the defined geographic locations. Lori Johnson seconded the motion, motion carried.

Comment made by Dr. Steve Schultz from the University of Nebraska, Omaha was to consider the age of the different projects, but the statute does not allow for that at this time.

The second point was to discuss the mortgage rate. Each year the mortgage rate is looked at and this year the determination was to look at the rates for the three locations.

Douglas/Sarpy is 7.5%

Lancaster is 7.6%

Rest of the State is 8.2%

Lori Johnson made the motion to adopt these mortgage rates and John Wiechmann seconded the motion, motion carried.

The equity return rate applied to the entire state and sub-markets. The rate was based on a 3 year average for 15-year after Tax –IRR. The motion was made by John Wiechman to set the rate at 5.40% and the motion was seconded by Lori Johnson, motion carried.

The time-line for publishing the cap rate will be reviewed by Blake Simpson and sent out to committee members. Mr. Levy has also requested that he be included on the distribution of the report.

Comment was made by Andrew Lines to the committee to consider the market and interest rates and the impact it has to increase or decrease the cap rate.

The next meeting is set for November 27th, 10:00 a.m. at the same location.

No further business the meeting was moved to adjourn by Lori Johnson and seconded by Patricia Sandberg. The meeting adjourned at 10:52 a.m.

Submitted by Barb Oswald