



## IN-DEPTH ITEM – CITY COUNCIL

DATE: 4/8/21

STAFF: Jodi Royal-Goodwin

### SUBJECT FOR DISCUSSION

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Overview of Hershey Manor Apartments and the Role of the City of Muscatine

### EXECUTIVE SUMMARY

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The purpose of this item is to provide information requested by City Council regarding the management of Hershey Manor Apartments by the City of Muscatine.

### GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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The report is intended to be informational and being provided to frame any discussion Council wishes to have regarding the City's role in Hershey Manor.

### BACKGROUND/DISCUSSION

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Hershey Manor Apartments opened in 1984 providing 50 one-bedroom units for very low-income persons at least 62 years old. This is an elevator property that was constructed using the U.S. Department of Housing and Urban Development (HUD) Multi-Family Division's 202 Program. At the time the application for funding was submitted the owners, Benjamin Hershey Memorial Convalescent Home, were required to identify a management company.

A contract for management services was entered into between the Hershey Board and Muscatine Municipal Housing Agency in May 1983 and continues to renew annually. The agreement outlines HUD required management activities, processes for paying allowable expenses and establishes management fees to be paid to the management agent. The agreement states that all project expenses are to be paid from project income or by the owner, and set the management fee at 3% of gross rents. The management fee was later increased to 5%.

Through a housing assistance payments contract with HUD, tenants are provided truly affordable housing. Meaning, even though there is a set monthly rent, the tenant share of the rent is based on the individual's adjusted gross income. For each occupied unit HUD pays the



difference between the contract rent, including utilities, and the tenant portion. The following illustrates this for a tenant with a monthly adjusted income of \$1,000.

Tenant Share	\$300
<u>Total Rent</u>	<u>\$817</u>
HUD Subsidy	\$517

Hershey Manor is a secure property that includes a community room, kitchen, on-site laundry, interior mailboxes, library and fitness areas, and on-site management. Pre-COVID, Milestones Area Agency on Aging operated a meal program on-site every business day in addition to regular health and recreation events, including diabetes screening, flu shot clinics, and other healthcare related events as well as recreational activities such as bingo, chair exercise courses, and community meals coordinated by staff. This year a COVID vaccination clinic was conducted at the property.

Staff believes the property still provides a high-quality rental opportunity for residents, however it is an aging building and there are some conditions that frustrate tenants, staff and the owners.

### Occupancy

After the first few months of the pandemic the property began to experience an increase in vacancies. Hershey Manor has historically had a different population demographic than other senior properties in the community with an average age almost a decade older than similar properties and predominantly female only households. This year has had a significantly higher number of tenants that have needed a higher level of care (nursing home or family care) or passed away, and the pandemic limited new applications and prevented move-ins. Another complication was the opening of Oak Park, an attractive new option for some tenants. Together this resulted in a high of 10 vacant units at one point, and the property manager struggles to recover, moving in new tenants only to lose others.

### Water Quality

There are some issues with water appearance in some areas of the building which staff works closely with MPW personnel to monitor and address. The water has been tested repeatedly and has been confirmed to have the same composition as water throughout the community. Steps have been taken to address this concern, including repeated flushing at the faucet and main, however due to the low usage rates of an elderly complex there appears to be some mineral build up in the copper pipes. Water heaters were replaced in 2016, but this condition persists in the closed loop system. Recently the situation has been exacerbated by the further reduction in water flow as a result of the lower occupancy rates, and earlier this year the rates of iron and manganese were elevated – though still at safe levels. Upon learning this, staff implemented weekly flushing in vacant units, which has brought the levels back down.



## HVAC System

The current heating, ventilation and air condition (HVAC) system is original to the building. The system is not only inefficient from an energy perspective but for the individual tenants because the entire building must be heating or cooling rather than addressing individual needs. It is also no longer a complete HVAC system as the chiller failed in 2018. Since then air conditioning has been provided by way of a rented chiller at extreme expense to the project. This is exceedingly frustrating as staff has been working for more than 6 years to fund a system replacement.

In fact, we received authorization to apply to refinance the property in October 2018, and the required appraisal, reports, independent engineer's cost estimate and HUD forms were prepared. Due to delays in the engineering estimate the appraisal and physical needs assessment had to be revised in late 2019 just before the government shutdown. The application was finally submitted in January 2020 when the federal government reopened. In March HUD notified Grandbridge that bids would be required and the application review would be placed on hold while bids were secured. A project engineer was selected, contracted, construction design was complete and bids were received July 21, 2020.

This past winter we were informed we must submit a new application with revised reports at an additional cost and delaying the project another cooling season. Staff has worked with a federal legislator to get HUD to waive repeating some requirements that added costs to the project as well as to expedite a new submission. The application is now being updated with the intent to submit within 60 days and HUD's expedited review and approval to be complete within 60 days of submission.

As mentioned above, all maintenance and operating expenses are paid from project income, including equipment, supplies, services and personnel. The Hershey Manor budget is reviewed and approved through the City's budgeting process because City staff is allocated to the project and the City reimbursed for those personnel expenses. Current portions of personnel costs billed directly to the project include:

Housing Programs Supervisor	10%
Housing Specialist (Property Manager)	50%
Maintenance Supervisor	25%
Custodian (part of 2 employees)	60%

The management fee has been impacted by the increased vacancy rate and decreased from \$24,011 in FY20 to an estimated \$22,450 this fiscal year. This fee pays for Housing and Finance staff time to complete administrative tasks related to project. Until the FY2020 restructuring of the Community Development and Housing Departments this included 10% of the Housing Administrator. This has been reallocated to the Housing Programs Supervisor at an estimated cost of \$8,950 and \$10,500 for FY21 and FY22, respectively. The balance of the management fees, approximately \$13,500, supports finance for accounting services including:



- Bi-Weekly Payroll processing includes staff charged to Hershey Manor
- Employee benefits for Hershey employees
- Hershey accounts payable - bill list for Board - issue checks, etc.
- Monthly tenant rent charges, collections, deposits, and reconciliations
- Monthly bank reconciliations, journal entries and financial reports
- HUD Reserve management and drawdown requests
- Hershey audit - prepare final financial statements, Notes to Statements, coordinate auditor requests
- Hershey budget review and preparation for Council
- The City Administrator is also involved in review of the Hershey budget and any operating issues
- Finance assists with information needed for the Hershey Manor re-financing

While Hershey regulations are administered by HUD's multi-family division, City experience administering federal funding, especially public housing and voucher programs, established an important knowledge base for managing the project. For Housing this includes tenant move-ins, move-outs, tenant income verifications, monthly HUD subsidy requests, routine maintenance, etc. Finance staff perform all accounting functions for Hershey Manor as part of regular Finance operations, which is more efficient than duplicating these services specific to the project.

However, much of the work for re-financings related to this property have fallen to the City as the management agent for the Hershey Board. There has been one previous full re-financing and one interest rate reduction completed since this property opened. HUD requirements for re-financings are extensive and have involved significant staff time. The current refinancing process has been especially cumbersome. This may be due in part to a lack of clear direction from our HUD representative and the mortgage company, combined with the COVID-19 pandemic and HUD personnel working from home.

Historically, the more routine management functions have been able to be "absorbed" within the overall Housing division. In recent years, Hershey Manor has been taking more staff time - this may be partially due to the aging of this facility. Currently this is a result of the increased turnover, issues with HUD assigned staff, and processing the refinancing. When the refinancing and HVAC projects are completed, it is anticipated management of Hershey Manor will normalize again.