

REORGANIZATION PLAN
FOR
FIFTH CITY CITIZENS REDEVELOPMENT CORPORATION
(FCCRC)

December 1975

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The Fifth City Citizens Redevelopment Corporation (FCCRC) has for the past six years sponsored the FHA 221-D3 multi-family dwelling project no. 071-55176, known as Pack 1. For the past three years the project has been occupied and managed by a professional management agent. Three such agents have been employed during the operational period to perform this service. All three agents have enjoyed intermittent periods of marginal success. However, due to a combination of errors of their own and problems beyond their control, all three agents have been unsuccessful in establishing the project as workable over the long haul. The last was terminated in August, 1975.

In September 1975, FCCRC (previously only the sponsor) took over management responsibilities in order to correct the operational difficulties and establish financial solvency. In the past two months, renegotiations of the insurance, maintenance services, janitorial work, repairs contracts, etc. have already reduced the monthly operating expenses by nearly 25%. A closed system of rent collection, a 10% rent increase, rent-up of one-third of the vacant units, and numerous tenant meetings and interviews have raised the rent collections to 75%. (Rent collections had slumped to somewhere below 60% when the last management agent was terminated.)

Despite these changes, monthly expenses continue to outdistance the monthly income by \$6,700.00. An accumulated back debt to the private sector of nearly \$30,000.00 has not been absorbed by the monthly income. Back mortgage and tax payments have accumulated to approximately \$167,000.00. despite the application of the entire rent subsidy (\$4,000) to the monthly payment.

These two documents represent FCCRC's 2 year plan to HUD for restabilization and reinstatement of the project. The schematic drawing gives a visual picture of how the plan will proceed. About a year ago, in October, 1974, a temporary reinstatement plan was offered and approved by the Chicago Area HUD Office. In that plan, a review was called for to take place a year later. This is that plan, revised to reflect the current situation and consisting of three basic proposals.

ONE:

An appeal for an Operating Subsidy of \$20,000.00, paid into the project funds in decreasing amounts over a period of 10 months or until the project can support itself, whichever is sooner. Such funds would be used to alleviate the immediate pressure of monthly expenses and back debt until that time.

TWO:

An immediate freeze on the monthly mortgage payments on interest and principal lasting for a period of 12 months or whenever the project has reached the above mentioned state of fiscal balance. Taxes would continue to be paid out of the rent subsidy funds and the balance would be forwarded to the project operating account.

THREE:

A recasting of the mortgage would take place in January 1977, or when the above two steps have been satisfactorily met, negotiating the monthly payments to be within the financial limits of the project. The balance of the unpaid back debt would be written off as bad debt or balloonned forward to the end of the mortgage payback period.

Fifth City's interest has always been and will continue to be to insure that adequate housing is provided to the residents of the community. We believe that Pack I can be a continuing asset both to HUD and to the community, as an example of good low income housing in the inner city.

UTILITIES
THREAT

Utilities have been shut-off several times and negotiations have only temporarily postpones a permanent shut-off of heat, water, and electricity. With winter now at hand, such a shut-off would make the buildings uninhabitable.

MAINTENANCE
DIFFICULTIES

To this point, utilities have been continued at the expense of providing satisfactory property maintenance. As repairs go untended, rent collections become more difficult. Vacant units remain empty due to the lack of funds available to bring them up to satisfactory condition for rent-up to new tenants. Normally, repairs and property loss are covered through tenant rent security deposits. However, tenants receiving rent supplement, who comprise a majority of the tenants in the project, pay only a \$25.00 security deposit making it ineffective as any insurance against property loss. The vacant units comprise an additional loss of income in excess of \$1,200.

MANAGEMENT PROPOSALS

FCCRC
SELF-MANAGEMENT

In June, 1975 a two year management plan for putting the Pack I Housing Project back on its feet was created including nine basic steps:

1. Assuming the Management Role.
2. Ten Percent Rent Increase effective upon takeover.
3. Filling the Ten Percent Vacancies.
4. Closed System of Rent Collections.
5. Increasing Rent Collections to 95%.
6. Trimming Costs Utilizing Local Services.
7. Volunteer Labor.
8. Negotiation with Creditors for Extended Payback
9. Tenant Education/Individual Interviews.

As the managing agent, FCCRC Pack I is responsible for developing a plan to raise the rent collections as close to the GPI as possible. The goal was set for 95% of 95% occupancy:

GROSS POTENTIAL INCOME	\$15,242.00
95% OCCUPANCY	14,480.00
95% COLLECTIONS	13,656.00

RENT
INCREASE

The rent increase of ten percent became effective September 1, 1975, the first increase in the project's history. Another ten percent increase is projected for November, 1976. Since September, three of the nine vacancies have been rented. A "lock box" system was established with the HYDE PARK BANK & TRUST for rent collections. The tenants send their rent payments with remittance slips directly to the bank, the remittance slip is forwarded to the FCCRC offices and the payment is deposited in the account. FCCRC returns a receipt to the tenants usually within a week. The closed system of rent collectios has enabled a more accurate recording of rent payment and debt.

FILLING
VACANCIES

CLOSED
SYSTEM

LOCAL
SERVICES

LABOR
COSTS

The previous management agent held contracts for services such as scavenger and extermination with businesses located outside the immediate area. FCCRC has negotiated contracts with local businesses for these services. The scavenger service was approximately \$500 a month. The property maintenance and janitorial services are provided through contracts at decreased rates. The FCCRC Board has begun to provide repair services for the cost of materials and minimal labor expense. The insurance policy has been negotiated at a savings of slightly more than \$3,000. These efforts trimmed the cost of the operating expenses by approximately 25%.

RENEGOTIATED
DEBTS

The total back debt to the private sector is \$30,000. The primary creditors have been contacted and the arrangements for retirement of the debt over the next 12 months are in process.

TENANT
RAPPORT

The key factor in local management of a federal housing project is the establishment of tenant rapport with the management. Without this relationship, timely rent payments, security and general property care eventually become a financial liability to the owner. FCCRC has been working in the community with tenant education for over four years. The entire community development project has been working for 13 years. These years of history command a certain amount of respect from all the residents of the community and facilitate the further development within the housing project. The tenants have regular meetings with FCCRC Board and Staff to delineate the needs and plans of the project.

PUBLIC DEBT RETIREMENT

PRESENT MORTGAGE

The present mortgage plan, still in effect, calls for a monthly payment of \$7,200 on interest, principle and reserve for replacements; and in addition to this, a monthly payment on the real estate taxes of \$2,300 is required. This amounts to a monthly payment to the Federal Mortgage Loan House of \$9,500. This figure was originally around \$6,00 per month (mortgage and taxes), but was raised to over \$9,000 about two years ago. This was done in a situation similar to now, to absorb an accumulated back debt by adding the debt to regular monthly payments. However, this arrangement put the monthly payment out of reach of the project and only compounded the problem.

PAYBACK CONTRADICTIONS

Due to increasing operating costs over the past four years and the failure of the managing agents to apply for the rent supplement funds owed to the project, along with the other problems mentioned in the previous document, monthly income levels fell far below the total debt of the project. Only partial payments on the mortgage principle and interest were possible. Despite repeated requests from the sponsor to recast the mortgage payments within the financial limits of the project, no affirmative action was taken. The claim was that the mortgage could not be recast and that rent levels should be raised to compensate for the balance of indebtedness. Such rent hikes required to balance the mortgage payments would have put the rent levels way above the area income ceiling and out of reach of 95% of the residents of the community. With no realistic options open, the mortgage debt continued to grow until it reached the current level of \$152,000.

SUPPLEMENT CONTROL

In November, 1974, with only partial payments being made on the mortgage, HUD began to redirect the entire monthly rent supplement allotted to the project (\$4,000) directly into the mortgage and tax payments. This amount still did not satisfy the monthly debt and it began to accrue at a rate of approximately \$5,000 per month. Further requests to recast the mortgage met with the same response as earlier.

CONTINUING TRENDS

The accumulation of back mortgage and tax payments, now in excess of \$162,000, are attributed to unrealistic levels of required monthly payments, and the endless management difficulties in inner city housing. Despite a "tightening-up" in management, all income predictions show only a continuation of the decline that has now forced the corporation into its present state of insolvency.

1976
RESTITUTION

Faced with mounting costs and pressure from debtors in the private sector, Fifth City Citizens Redevelopment Corporation proposes a Period of Restabilization, a 12 month period during which HUD would impose a freeze on the mortgage back debt and monthly payment while the project would raise its rent collect to 95%, meet its monthly operational expenses and pay back the back private debt of \$30,000 with the aid of an operating subsidy. Real estate taxes would also be met during this period. Subsequent to the period of restabilization would be a Reinstatement Plan in January, 1977. Such a plan would consist of recasting the monthly mortgage payments within the financial limits of the project at that time. Also, a reevaluation of the land taxes would be sought. The accumulated mortgage debt could be either written off as bad debt or "ballooned" forward to the end of the mortgage loan payback period.

1977
REINSTATEMENT

A reinstatement in January, 1977, would allow the project the time required to establish a workable system of operations, a budget suited to its monthly needs, and the opportunity to spend its energies in the kind of tenant education needed for the project to be self-sufficient.

CONTINUING
INTENTIONS

Fifth City's interest has always been and will continue to be to insure that adequate housing is provided to the residents of the community. We believe that Pack I can be a continuing asset both to HUD and to the community, as an example of good low income housing in the inner city.

PRIVATE DEBT RETIREMENT

RESTABILIZ-
ATION
PERIOD

At present, the cash rent collection is 74% (\$6,500) of the projected goal (\$8,900). Occupancy is at 93%. Operating expenses for the project in the next ten months are projected to approximately \$17,000 over the rent collection figure. This deficit is in addition to the \$30,000 back debt.

SUPPLEMENT
REDIRECTION

In order to satisfy the \$30,000 back debt to the private sector, and to meet operational expenses during the ten month payback period, Fifth City requests:

SUPPLEMENT
REDIRECTION

1. That government funds already allotted to the project by the rent supplement agreement, but currently being applied to the mortgage principle and interest, be redirected into the project's operating account, having first satisfied real estate tax claims by the county. This action would release approximately \$2,700 per month into the operating account and could be used to partially alleviate the immediate pressure of the back debt and the monthly expense deficit. Also, approximately \$33,000 of unclaimed rent supplement money could be applied to accrued property taxes and the balance forwarded to the operating account. Such additional action would release approximately \$18,000 immediately into the project operating account and reduce the private debt to 2/5 of its present level, i.e. \$12,000.

OPERATING
SUBSIDY

2. That an operating subsidy grant totaling \$20,000, payable in decreasing monthly amounts, for a period of ten months, be made for the purpose of meeting the balance of monthly payments of expense and debt retirement.

The accompanying chart explains the rent collections increase planned for the next ten months. A schedule for retirement of the debt is laid out in the chart. During the first ten months of the Period of Restabilization, ten percent of the debt will be retired each month (\$3,000 per month), over and above the monthly operating expense. This total monthly debt retirement will be met by the actual collected cash income, the balance of the rent supplement left after taxes, and a portion of the operating subsidy. As cash rent collections increase, the amount of the operating subsidy will decrease in an inverse fashion. Final payment on the back debt is projected for November, 1976. At that time, an actual monthly operating budget can be established.

REINSTATEMENT
PLAN

November, 1976, or the point at which the back debt has been repaid and monthly income no longer requires the operating subsidy to meet monthly operating expense, will signify the end of the Restabilization Period. At that time, a ten percent rent increase will be administered. A two month grace period will follow to allow the ten percent increase to take full effect. January, 1977 will be the tentative beginning of the Reinstatement Plan.