

AGENDA

URA Finance Committee

February 13, 2025

3:00 pm – 4:00 pm

1. UPDATE: 302 Conifer Street – Middle Income Housing (Deed Restricted)

Join Zoom Meeting

<https://us02web.zoom.us/j/88212193120>

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URA FINANCE COMMITTEE AGENDA ITEM SUMMARY

Staff: Andy Smith, Redevelopment Manager

Date: February 13, 2025

SUBJECT FOR DISCUSSION

UPDATE: 302 Conifer Street – Middle Income Housing (Deed Restricted)

EXECUTIVE SUMMARY

On December 12, 2024, the URA Finance Committee heard a presentation regarding 302 Conifer Street (the “Project”), the site of a proposed 76-unit multi-family community for low-moderate and middle-income residents. At that time, URA staff were engaged in discussions with the developer and potential funding partners. The URA Finance Committee was generally supportive of the novel strategy to support middle-income housing by the creation of a revolving loan fund.

Since the Finance Committee meeting in December, URA Staff has continued discussions with the developer and funding partners and has arrived at a broad set of deal terms for the Finance Committee to consider. This agenda item is intended to provide an update, establish parameters, and seek guidance from the Finance Committee in advance of full consideration by the URA Board at the February 27, 2025, board meeting.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Does the URA Finance Committee continue to support this strategy/approach?
2. Does the URA Finance Committee support the general terms described in the attached draft term sheet?
3. Does the URA Finance Committee have any questions or concerns?

SPECIFIC CHANGES SINCE DECEMBER 12, 2024

Since the URA Finance Committee considered this project in December 2024, the following changes and updates have occurred:

1. The Community Foundation of Northern Colorado changed their name to NoCo Foundation and have not yet committed to participation in this project. URA staff continue to dialog with NoCo Foundation leadership about this specific project as well as a larger partnership. Because of tight deadlines faced by the project developer, they decided to proceed without a commitment from NoCo Foundation and are reasonably

confident their pursuit of other funds will be successful if NoCo Foundation ultimately does not commit in time.

2. As loan administrator, Impact Development Fund (IDF) has replaced Weave Social Finance (aka Colorado Housing Accelerator Initiative). This change is regarded as positive because IDF is an established non-profit community development finance organization based in Larimer County and brings significant underwriting experience and capabilities to the project.
3. Interest revenue to be earned by the URA is now slightly higher than originally anticipated, with no additional expense to the project.
4. The term of the proposed loan is now approximately 12.5 years and not 10 years. That is because the senior lender, Freddie Mac, requires all subordinate debt to mature no sooner than 6 months after their loan matures, which is pegged to rental stabilization milestones. If a major capital event occurs before the maturity date (such as a sale or refinance), then the loan balance would become due and payable.

REVISED & UPDATED BACKGROUND/DISCUSSION

The Project site is within the North College Urban Renewal Plan Area boundaries, specifically at 302 Conifer Street. The Project was awarded Prop 123 equity funding, and has attracted additional investments, but a financial gap remains. URA staff have worked with potential financial partners to develop a novel arrangement that may fill the gap and enable the Project to proceed if approved by the URA Board.

The Project is proposed to be a 76-unit multi-family rental community for low-moderate and middle-income residents. 100% of the dwelling units will be income-restricted, with 59 units (77% of the total) restricted to household incomes at 80% or less of AMI. Because these 59 units fit within the City's definition of affordable housing, this project may be an affordable housing project for purposes of Land Use Code incentives, if desired by the developer. However, this project will not qualify for traditional affordable housing programs such as Low-Income Tax Credit (LIHTC) financing. The site is within the North College Urban Renewal Plan Area boundaries.

The Szanton Companies (Szanton) is the Project developer, an experienced Low Income Housing Tax Credit (LIHTC) developer from Maine who recently relocated their business to Colorado. The estimated total development cost is \$26.2 million, or approximately \$340,000 per dwelling unit. The Project is proposed to be a single 4-story, highly efficient all-electric building.



Financial Gap

The Project currently has a funding gap of \$4.2 million and since June, URA staff have engaged in discussions with Szanton and potential funding partners exploring innovative potential solutions to enable the Project to proceed.

Initially, URA staff considered typical financial arrangements, such as a standard reimbursement of incremental property taxes generated by the project if completed. However, with only five years remaining in the Plan Area's tax increment revenue collection period and two years (at best) before the Project is actually built, a meaningful impact would be highly unlikely. Thus, given that promotion of new affordable housing in URA plan areas is understood to be a high priority, URA staff continued to explore creative alternatives based on partnerships.

Proposition 123 Equity

The Proposition 123 Equity program (Prop 123) was approved by Colorado voters in November 2022 and authorizes the state to retain money from existing state tax revenue to support affordable housing investment. These funds are split 60/40 between the Office of Economic Development and International Trade (OEDIT) and the Department of Local Affairs (DOLA) through its Division of Housing (DOH), respectively. OEDIT manages the Affordable Housing Financing Fund, in partnership with Colorado Housing and Finance Authority (CHFA), which serves as Contract Administrator. DOH manages the Affordable Housing Support Fund.

In July 2024, the Project was initially awarded \$5.8 million in the inaugural round of Prop 123 funding by the State of Colorado. Out of 36 applications, the Project was one of six from across

Colorado to earn an award, and the only one from Larimer County. Interestingly, as potential gap funding partners (including the URA) have held discussions over the past few months, CHFA tentatively agreed to increase the award to \$7.0 million to free-up additional cash flow to service debt provided by potential gap funders such as the URA.

Affordable housing projects in our community are eligible for Prop 123 funding, because on June 12, 2023, the City of Fort Collins filed a commitment with the State of Colorado pledging to increase our local affordable housing supply by 3% each year for three years, for a total of 555 new dwelling units. That commitment was accepted by the State.

General Strategy

Prop 123 funding presents a unique and significant opportunity to develop affordable housing beyond the highly competitive LIHTC process. Specifically, middle-income housing for incomes in the 80-120% AMI range is in very high demand, yet it is not eligible for LIHTC funding which is reserved for projects targeted to household incomes at or below 80% of AMI. With Housing Catalyst being the City's primary developer of LIHTC housing, URA Staff has worked diligently to identify a distinct strategic "lane" and functional role for it to complement the work that Housing Catalyst does well in our community.

Building upon the \$6.2 million foundation provided by Prop 123 funding, the URA has worked with Szanton and following organizations to come up with a potential gap funding plan:

- CHFA
- Community Foundation of Northern Colorado (now NoCo Foundation)
- Weave Social Finance / Colorado Housing Accelerator Initiative (CHAI)
- Impact Development Fund (IDF)

While CHAI and NoCo Foundation are not currently involved in the deal, they are mentioned here as an acknowledgement of their time and effort., as well as a belief they may be involved in future projects.

From these discussions, a conceptual deal structure has emerged whereby the URA may contribute money from the North College Urban Renewal Plan Area fund in the following manner:

- **\$100,000** in the form of a Tax Increment Finance (TIF) grant paid to Szanton as a reimbursement of forecasted incremental property taxes to be generated by the project after completion and through the sunset of the North College Urban Renewal Plan Area TIF revenue collection period.
- **\$3.2 million** from the URA. The loan would carry a 3% interest rate, and the principal loan amount would be returned to the URA upon the sooner of an approximate 12.5-years term or a capital event, such as a sale or refinance.

It should be noted that in addition to Prop 123 capital, CHFA is also providing a \$3,000,000 loan to the Project through the Middle-Income Access Program (MIAP)

Finally, Housing Catalyst has independently agreed in principle to enter into a Special Limited Partnership agreement with Szanton to provide property tax abatement on the 59 dwelling units restricted to 80% and less AMI households. The 17 dwelling units not eligible for property tax abatement would generate property taxes constituting the TIF reimbursement grant pledged by the URA as described above.

Details

SOURCE	\$\$\$	TERMS
Mortgage - Amortizing - Freddie non-LIHTC Forward	10,651,727	6.35%, 10-year term, Amortizing
Mortgage - Amortizing - CHFA MIAP	3,000,000	6%, 30-year term, Amortizing
Mortgage - URA (Administered by IDF)	3,220,000	3%, 12.5-year term, Interest-only
Deferred/Forgone Developer Fee	340,000	No repayment
Federal and State Tax Credits for Energy Efficiency	400,000	No repayment
Proposition 123 Program Equity	7,000,000	Principal must be repaid in 30 years
Sponsor (Developer) Equity	645,176	Repaid through available cash flow
Residual Gap	1,028,340	
TOTAL	26,285,243	

Big Picture

URA staff began discussions with Szanton and potential funding partners intending to fill the gap faced by the Project at 302 Conifer Street. However, as discussions progressed, it became evident that a replicable tool and partnership model was emerging, potentially paving the way for the URA to support new affordable and middle-income housing as a reliable blight prevention and mitigation tactic. Specifically, a revolving social impact loan fund magnified by financial partners and administered by professionals may provide a legacy for the URA that continues after TIF revenue expires.

Finally, in terms of the housing crisis, the URA may have finally identified a way to promote new workforce housing that does not compete with traditional affordable housing providers for resources such as property tax abatement or tax credit financing. In the broader spectrum of housing affordability, the middle-income segment is critical for economic and community stability but is still in the early stages of financial innovation.

Next Steps

To prepare for the February 27 URA Board meeting, URA staff and legal counsel will work with IDF and Szanton to negotiate and finalize loan terms generally described in the attached draft

term sheet. Additionally, URA staff and legal counsel will negotiate a final agreement with IDF for their administrative assistance.

- February 27, 2025: *URA Board – Approve general terms*
- March 27, 2025: *URA Board – Approve final documents*
- Summer 2025: *Project Groundbreaking*
- Summer 2026: *Project Ribbon-Cutting*

Staff Recommendation

URA staff recommends draft terms and conditions be presented for consideration by the URA Board at their February 27, 2025, meeting and authorize URA staff and legal counsel to proceed with drafting of final documents to be signed by Acting Executive Director:

ATTACHMENTS

Exhibit A: Draft Term Sheet

February 5, 2025

The Szanton Company
720 S. Colorado Blvd.
13th Floor, North Tower
Denver, CO 80246

RE: Term Sheet --302 Conifer Street Development

Dear Partners at Szanton Company,

Thank you for the opportunity to discuss the permanent financing structure needed to complete the 302 Conifer Street, middle income development, located in Fort Collins, Colorado. The terms and conditions presented herein represent those under which the project loan application is eligible. Final approval of the proposal is solely at the discretion of the Fort Collins URA Board of Directors and will be based on the availability of funds.

SUMMARY OF PROPOSED TERMS AND CONDITIONS

1. **Lender:** Fort Collins Urban Renewal Authority.
2. **Borrower:** The Szanton Company, or a single asset entity owned by the Szanton Company.
3. **Administrator:** Impact Development Fund ("IDF")
4. **Loan Amount:** \$3,220,000 (Three Million Two Hundred Twenty Thousand Dollars and No Hundreds).
5. **Loan Purpose:** Borrower will use the Loan Proceeds for the construction and permanent financing of 76 income-restricted units, collectively known as 302 Conifer.
6. **Property:** The Property is located at 302 Conifer in Fort Collins, CO 80524 (the "**Property**").
7. **Closing:** Occurs when the exchange of all executed loan documents following Lender's satisfaction of all conditions precedent to the making of the Loan to Borrower. Closing shall occur on a date determined by Lender and Borrower prior to the Loan Closing Deadline.
8. **Loan Closing Deadline:** Not later than December 31, 2025.
9. **Disbursement Schedule:** Incremental draws upon satisfactory presentation of invoices.
10. **Commitment Fee, Paid to IDF:** 1.00% of the Total Loan Amount.
11. **Withdrawal/Denial Fee:** Paid to IDF: In the event of loan withdrawal or denial, Borrower shall remit the full commitment fee.
12. **Loan Term:** 120 Months (10-year), interest-only.

13. **Maturity Date:** The earlier of a) a capital event such as a sale or refinance, or b) 180 days (6 months) after the Maturity Date of the senior loan issued by Freddie estimated to occur approximately 150 months (12.5 years) from the Date of Loan Closing
14. **Extension of Maturity:** If approved by Lender, up to 25 months, with a 0.25% extension fee payable to IDF.
15. **Interest Rate:** 3.00% fixed
16. **Loan Payments:** Interest shall accrue based upon daily outstanding balance. The Borrower shall make monthly interest payments throughout the loan term, with payments due on the first day of each month. Loan payments shall commence upon project stabilization, as defined by the senior lender's loan documents. All outstanding principal, accrued but unpaid interest, and any applicable fees, costs, or charges, shall be due and payable upon the Maturity date.
17. **Prepayment Penalty:** N/A.
18. **Recourse:** The loan shall be full recourse to the Borrower throughout the construction period, with personal and corporate guarantees as required.
19. **Guarantor:** The guarantor for this loan will be both personal (all personal parties with 20% or greater ownership interest in the borrowing entity), as well as corporate, contingent on the borrower's organizational chart; final determination based on underwriting.
20. **Real Property Collateral/Deed of Trust:** A deed of trust encumbering the Property in a lien position that is TBD with maximum CLTV of 90%. *Lien will not be subordinated to cash flow lenders.
21. **Other Closing Conditions:** All other customary closing conditions apply.
22. **Documents and Legal Requirements:** Borrower will be required to execute a Note, Deed of Trust, Loan Agreement, and all applicable Affordability Covenants (Land Use Restriction Agreements) associated with the specific terms and conditions of the comprehensive capital stack, and to furnish these and such other documents and made a part hereof. Borrower agrees that the Loan and this Term Sheet are subject to such additional documentation and legal requirements as may be deemed necessary by Lender's counsel.
23. **Affordability Requirements:** the property must meet the minimum affordability requirements as stipulated in the awarded Proposition 123 equity award guidance.

The above outlines the proposed terms we intend to administer on behalf of the Fort Collins Urban Renewal Authority and any additional future investors. These terms are contingent on formal review and approval by all contemplated investors and do not constitute any form of financial investment commitment on behalf of IDF.

Sincerely,

[signature hold]
[name of signatory]