FUNDAMENTALS: FUNDING AND FINANCING

COLORADO
Division of Housing
Affordable Housing Toolkit for Local Officials

GOAL OF THE TRAINING

The purpose of this training is to introduce affordable housing finance basics and how you, as Local Elected Officials, can support the development of affordable housing in your communities.

AFFORDABLE HOUSING FINANCE BASICS

ARE FOR-SALE AND MULTI-FAMILY RENTAL FINANCE THE SAME?

Both typologies can be restricted for affordability

Both can utilize similar financing sources (HUD HOME and CDBG, DOH Housing Development Grants, Federal Home Loan Bank AHP)

Both types of projects include similar development budget items, but the details of these budgets may differ.

Development cost categories include:

- Land cost
- Construction Costs
- Material
- Labor
- Financing Costs
- Other Soft Costs

HOW IS FOR SALE DIFFERENT FROM MULTI-FAMILY RENTAL FINANCE?

Rental Housing Finance:

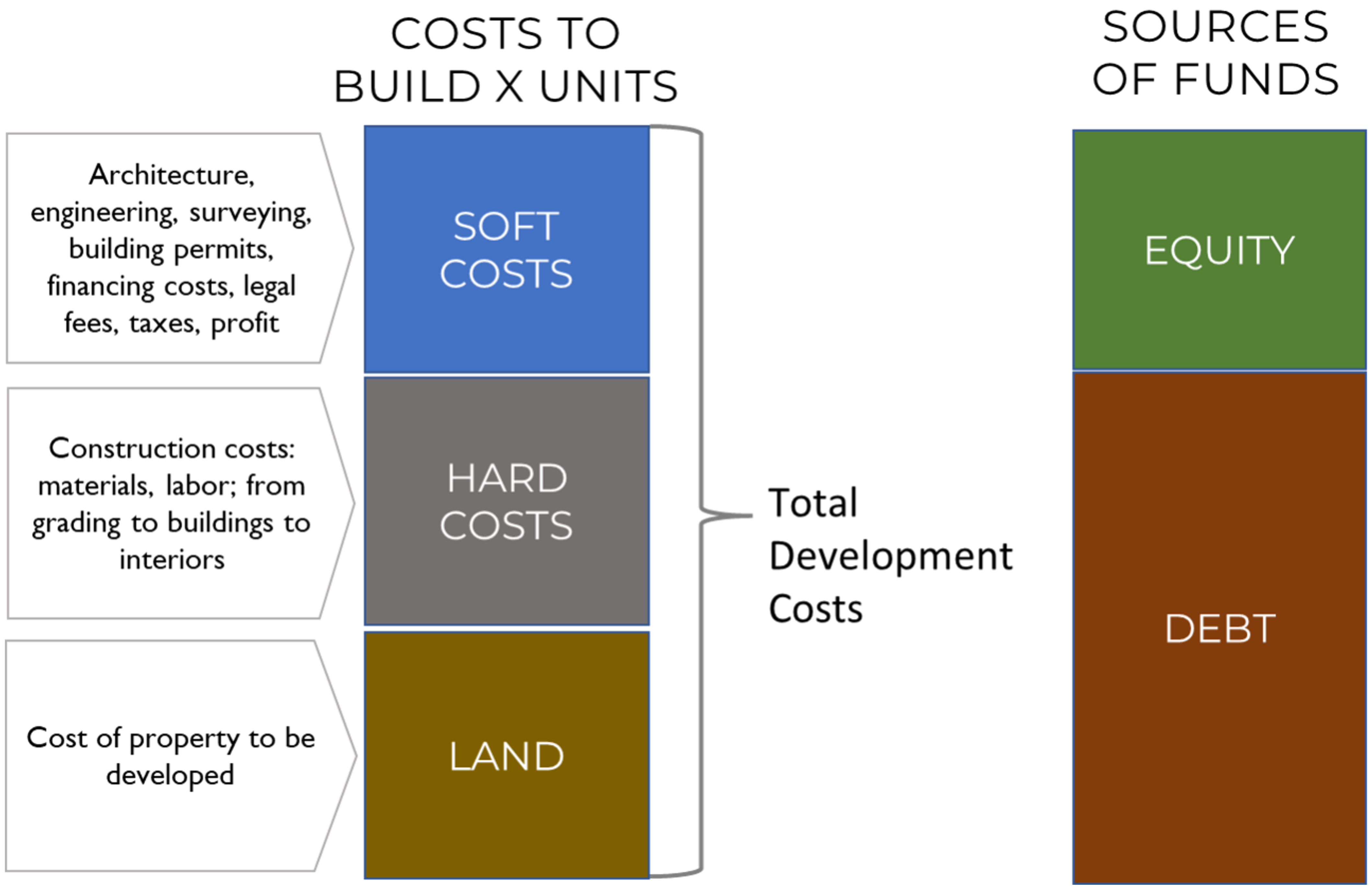
- RENT accounts for income, not sales
- You MUST assess what size and term of loan(s) can be supported by rental income
- The developer generally earns his/her developer fees during construction
- and/or later as “earn- out” from property cash flow
- The entire interim financing is generally repaid at one point in time
- The interim loan’s source of repayment is a commercial term loan
- The term lender’s source of repayment is the Net Operating Income (NOI) on the property

HOW IS FOR SALE DIFFERENT FROM MULTI-FAMILY

For Sale Housing Finance:

- SALE prices are the revenue source to pay for development costs
- The developer earns his/her developer fee from the profit margin on the sales of the individual units
- Interim financing is usually paid off incrementally as each home sale closes
- The interim loan's sources of repayment will be the consumer mortgage loans made to the home buyers, and possibly down payment assistance loans
- Additional resources may be used to cover the gap between development costs and the revenue expected from buyers when prices are kept low for affordability
- The term lender's sources of repayment is the consumer's income
- The developer's cash flow is generally not considered recurring like it would be for a rental development; homes must continue to be built and sold profitably in order for the developer to continue generating cash flow

WHAT ARE THE COSTS ASSOCIATED WITH AFFORDABLE DEVELOPMENT?



IDENTIFYING YOUR FINANCING "GAP" AND WAYS TO ADDRESS IT

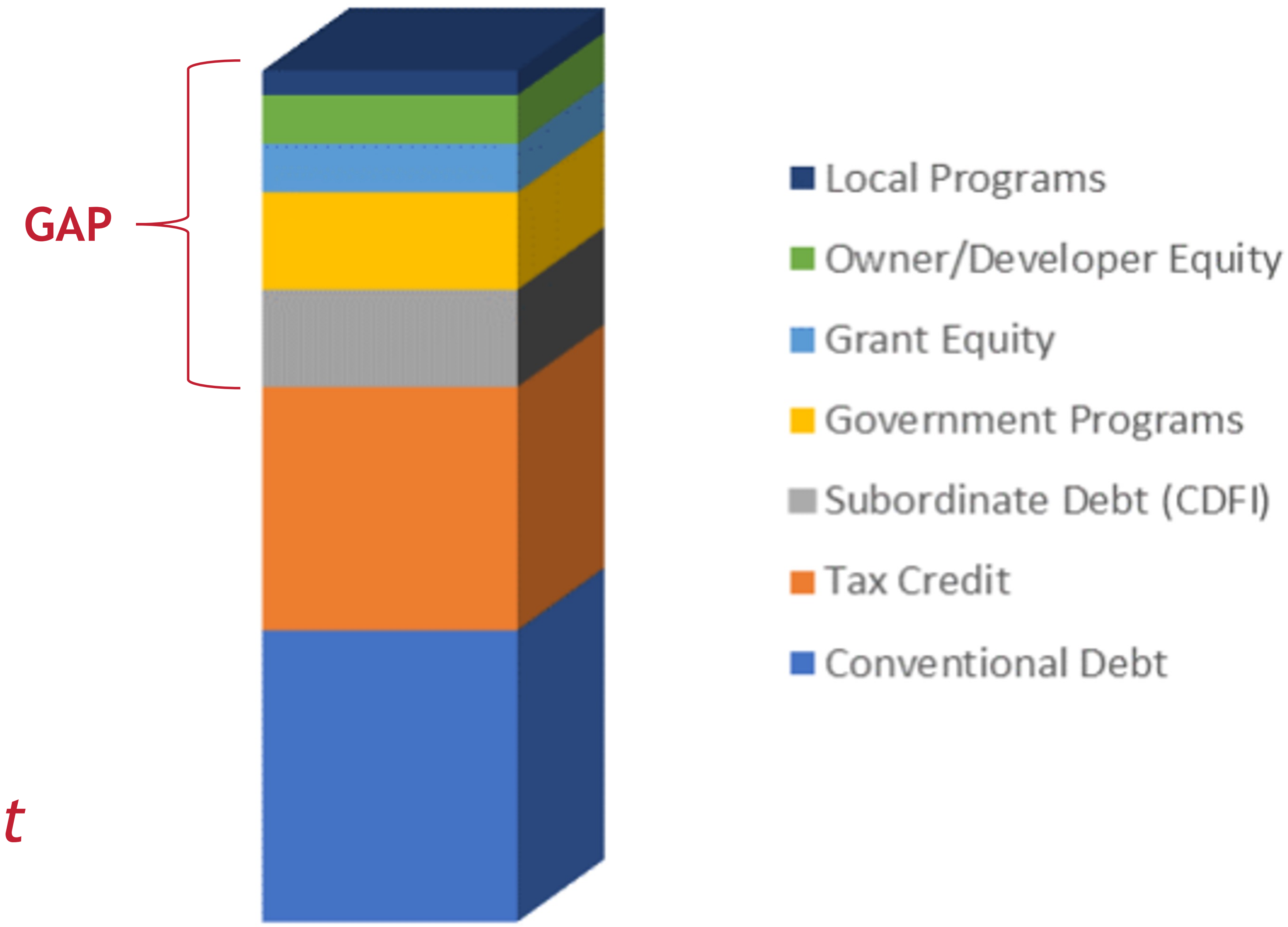
A financial feasibility analysis will help determine a project's "gap"

Depending on the needs of the project, the gap will be different for different projects

There are multiple ways to address a development cost gap, including:

- Additional Equity
- Value Engineering/cost reduction

Local governments can provide both cost reduction and additional equity



FOR SALE CONSTRUCTION FINANCING OPTIONS

Use an aggregate loan sizing with defined “start” limitations“

- $2,000,000 loan to build 20 houses of $100,000 each
- Have a clause in Loan Agreement which limits the maximum number of houses allowed at any given time to 10 houses

Use a revolving line of credit

- 1,000,000
- The loan for each house will equal $100,000
- Therefore, you can have 10 houses under construction at any one time

FOR SALE FEASIBILITY/ GAP ANALYSES

Uses		Sources	
Design Services	$167,000	Conventional Loan	$7,000,000
CM/GC Fee	$411,719	Equity	$500,000
Materials/General Services	$7,020,455		
Bonds/Insurance	$85,200		
Financing	$450,000		
Development Fee	$100,000		
Total	**$8,234,374**	**Total**	**$7,500,000**
		Gap	$734,374

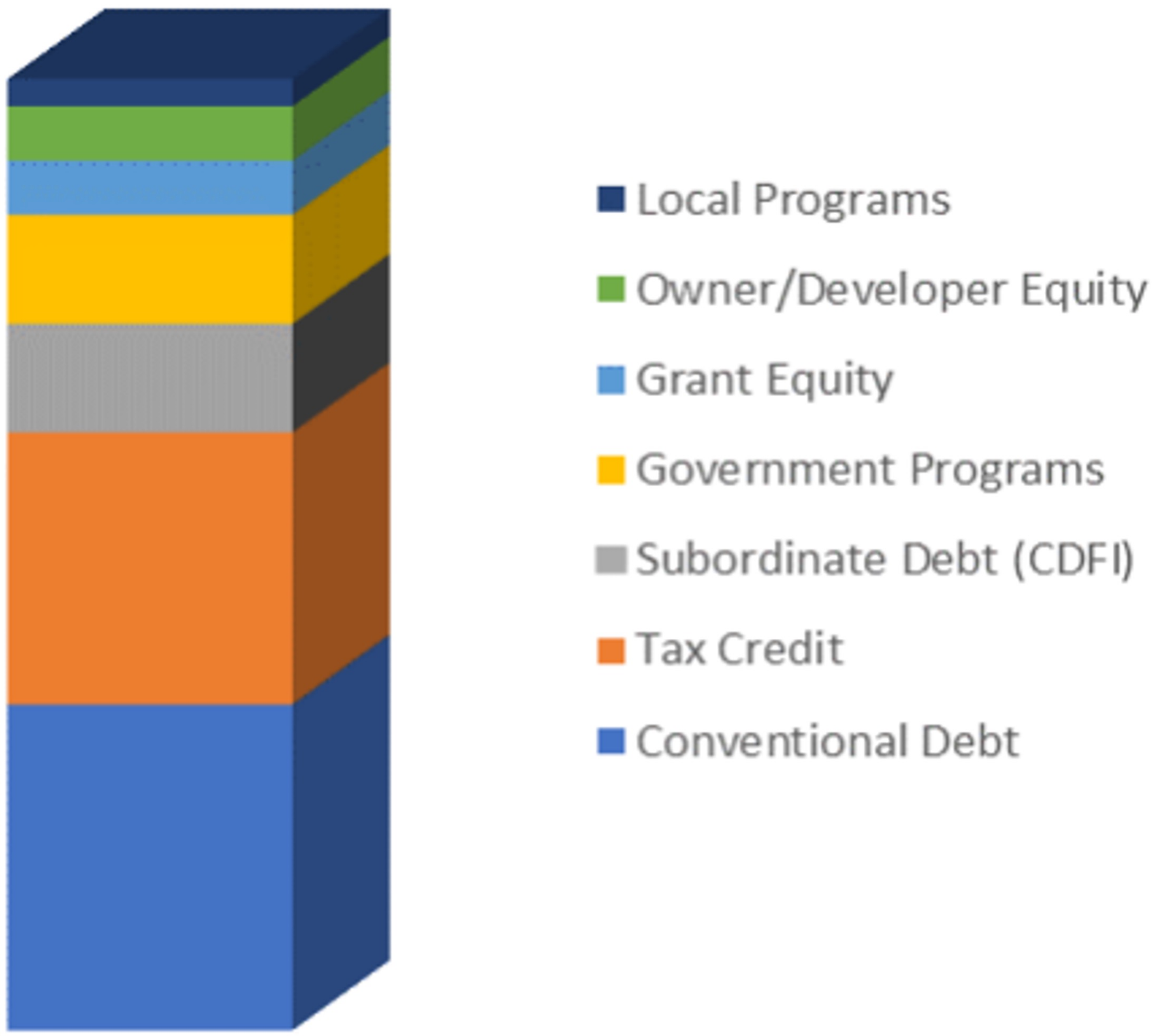
This is your gap!

Total Development Costs Per Unit	$411,719
Sale Price Per Unit	$381,500
Total Units	20
Total Sales	$7,630,000
Selling Costs (1%)	$76,300
Net Proceeds	$7,553,700
Loan Payments	$7,000,000
Net Funds Remaining	**$553,700**

		Sale Price	Total Sales	Total Cost
2 BR Untis	9	$365,000	$3,285,000	$3,705,468
3 BR Units	11	$395,000	$4,345,000	$4,528,906
Total	20	$381,500	$7,630,000	$8,234,374

MULTI-FAMILY RENTAL CAPITAL STACKS AND HOW TO BUILD ONE

- A capital stack is the funding or investment structure of a project.
- The bottom of the capital stack has first priority for repayment if the organization defaults on its obligations.
- Unencumbered funds sit at the top of the capital stack. These funds are the last to get repaid in the event of a default.
- Equity in a project helps attract funders who bring in senior debt.

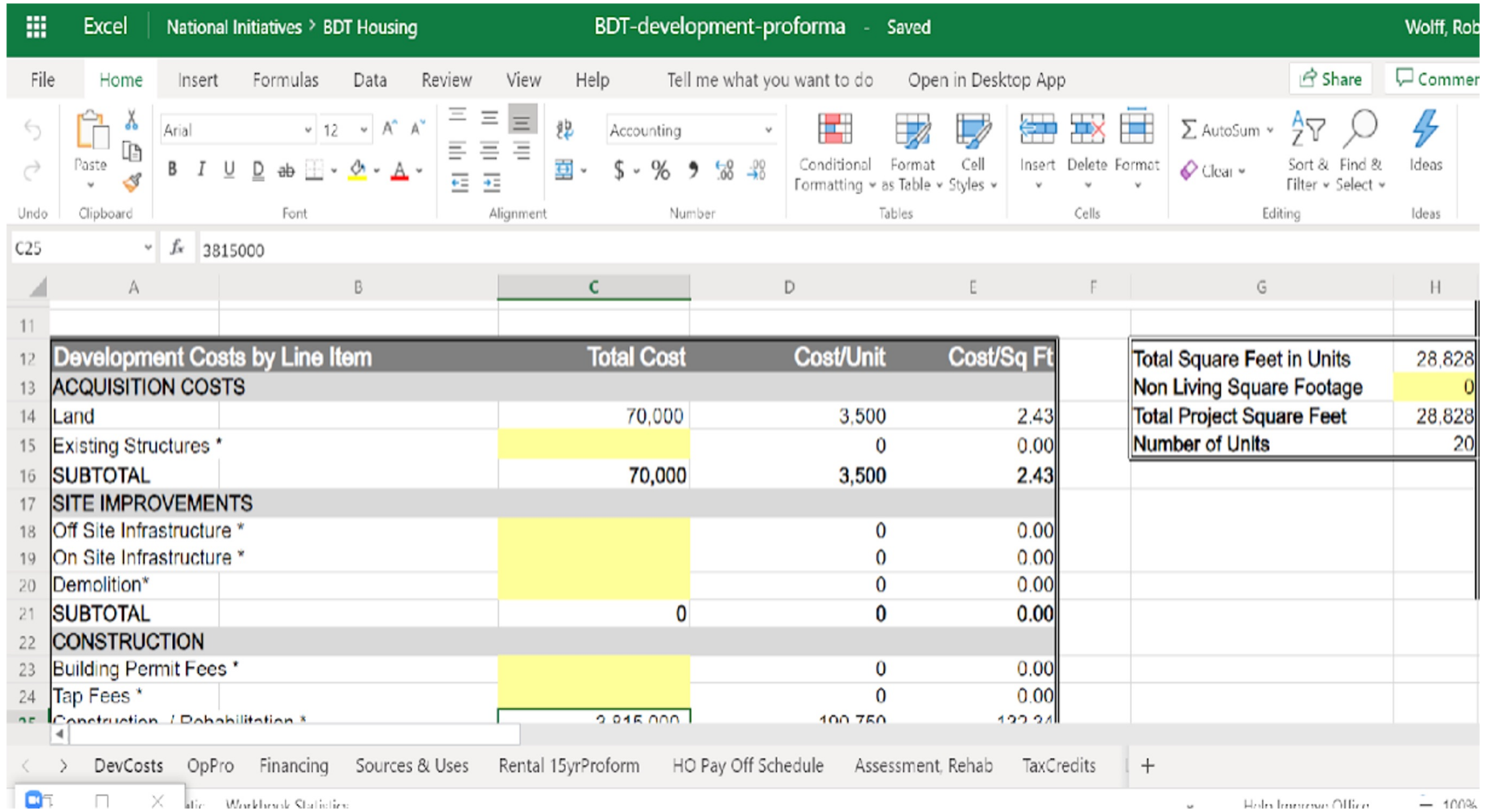


FINANCIAL FEASIBILITY ANALYSES- MULTI-FAMILY RENTAL PRO-FORMA

FINANCIAL FEASIBILITY ANALYSIS

What is a Pro Forma?

- A pro forma is more than a budget. It is a tool for analyzing the overall financial feasibility of a project
- Assessing a variety of factors, a proforma can project the operating expenses and revenues of a proposed development
- Developers use pro formas to decide on items like how many units to build, how much community space to include, how much debt.
- Helps make decisions from a place of knowledge



Development Costs by Line Item	Total Cost	Cost/Unit	Cost/Sq Ft
ACQUISITION COSTS			
Land	70,000	3,500	2.43
Existing Structures *		0	0.00
SUBTOTAL	70,000	3,500	2.43
SITE IMPROVEMENTS			
Off Site Infrastructure *		0	0.00
On Site Infrastructure *		0	0.00
Demolition*		0	0.00
SUBTOTAL	0	0	0.00
CONSTRUCTION			
Building Permit Fees *		0	0.00
Tap Fees *		0	0.00

Total Square Feet in Units	28,828
Non Living Square Footage	0
Total Project Square Feet	28,828
Number of Units	20

FINANCIAL FEASIBILITY ANALYSIS

Components of a Pro Forma

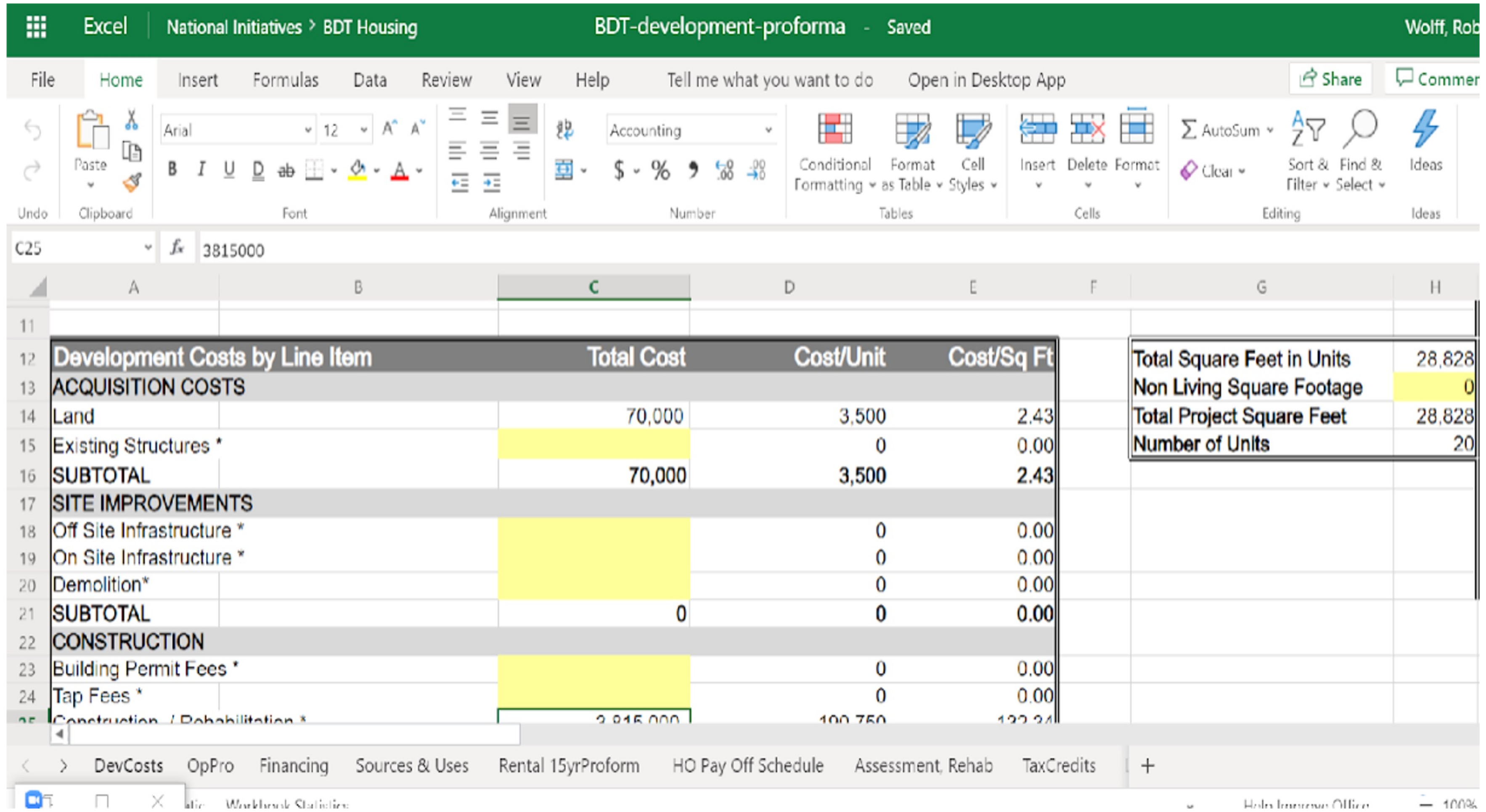
Development Pro Forma

- Determining Costs
- The components: hard costs, are only half of the equation. Others include land and "soft costs."

Operating Pro Forma

- How much money will the development generate in rents or unit sales? How much will it cost to maintain and manage the property each year?

Sources and Uses



FINANCIAL FEASIBILITY ANALYSIS

Things to Keep in Mind

Lots of jargon/Financing terms

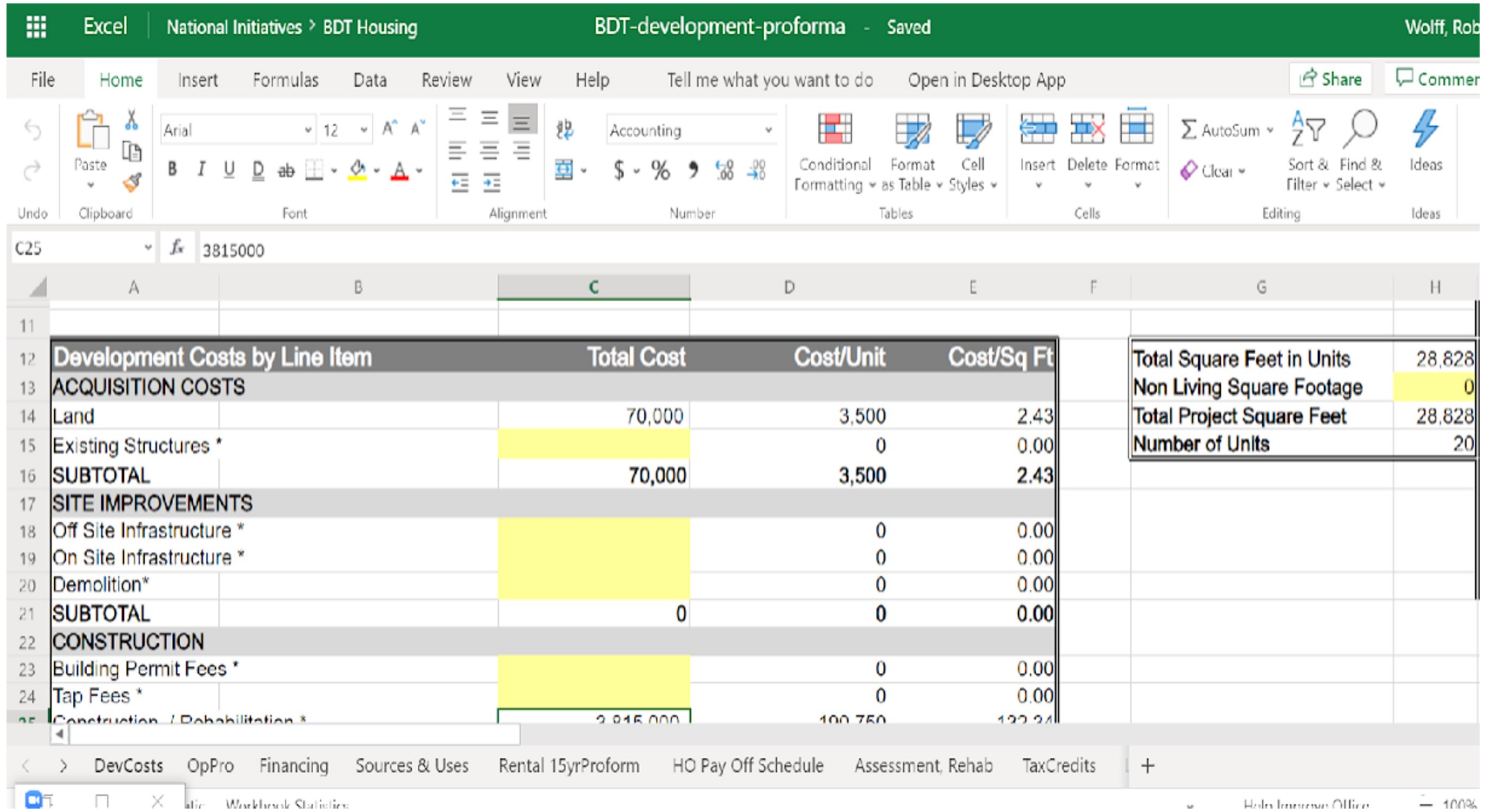
- Debt service coverage ratio (DSCR), loan terms, amortization schedule, NOI (net operating income)

Building a pro forma is an Iterative process

- Things change with more info, keep coming back to the pro forma

Don’t wait until you need money

- This tool can help you determine what money you need and can inform design



COST TO BUILD THE PROJECT

Development Pro Forma

Land Acquisition/Site Acquisition

- Long Term Ground Lease may be used

Planning, Design, & Approvals

- Architects, surveyors, planners, civil engineers, as well as specialists such as market analysts, environmental, and traffic engineers

Site Work and Building Construction

- Rough grading and clearing, constructing roads and utilities, as well as drainage and environmental protection features.
- Engineers, and construction managers

Amenities and Off-site costs

- Features that do not directly generate rents but are needed for the project to meet its goals

Construction Management and Developer Fees

OPERATING PRO FORMA: BALANCING DEBT AND INCOME

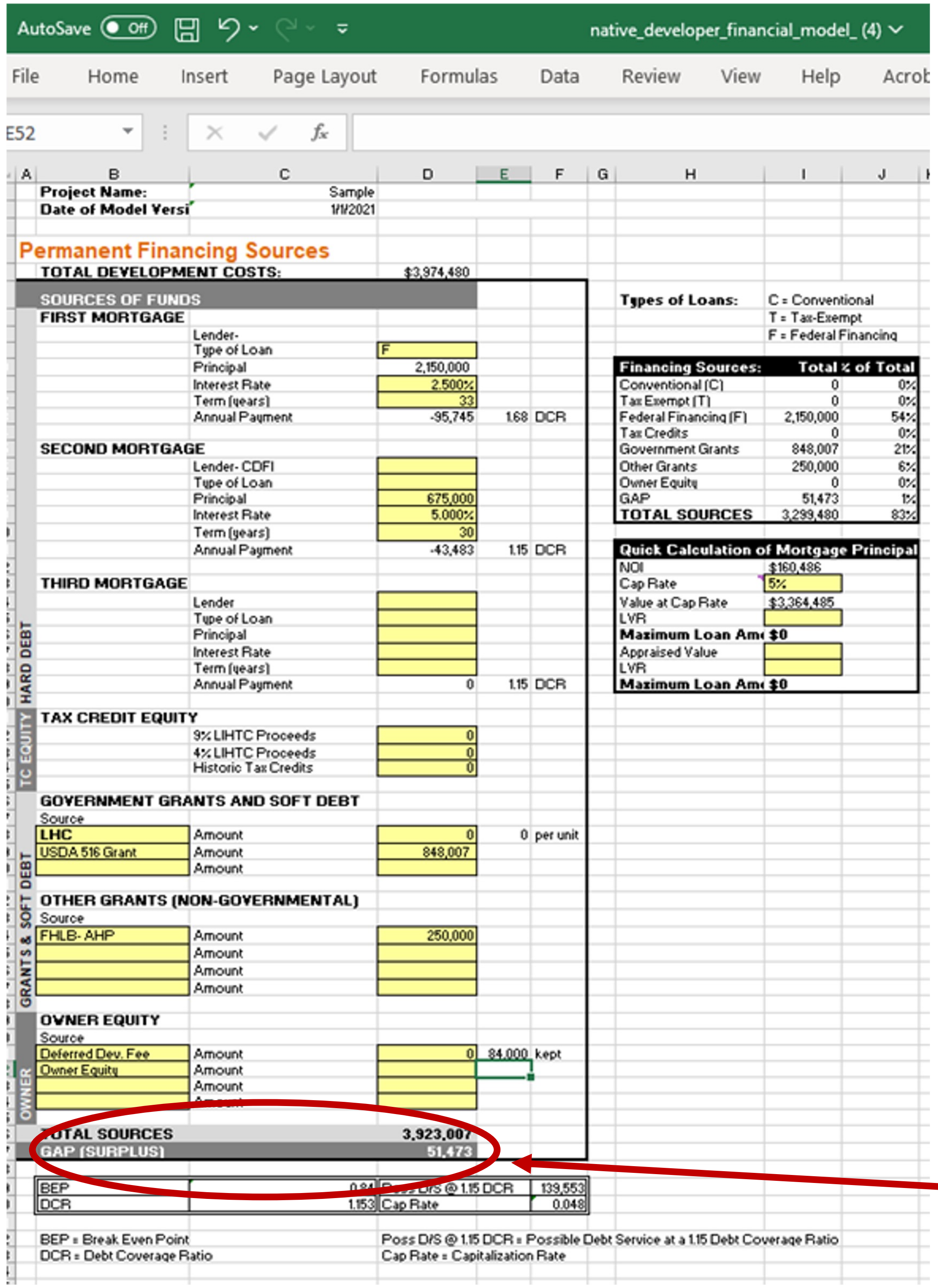
An Operating Pro Forma can help you determine annualized rental property expenses (Per Unit Per Annum), the amount of revenue the project will generate, and the amount of income that will available to pay back debt.

Important Questions:

- Are you aiming to serve multiple income brackets (AMI targets)?
- Are you aiming to serve varied-sized households?
- Are there Project-Based Vouchers?
- What are the taxes/will you need to pay taxes?
- What are the Fair Market Rents in your area?
  - Are the rents of a 4- bedroom unit higher than the rents of a 3-bedroom unit?

A	B	C	D	E	F	G	H	I	J
Project Name:	Sample								
Date of Model Version	1/1/2021								
Operating Pro Forma									
STABILIZED FIRST YEAR INCOME						**EXPENSES**			
Bd/Bath	% AMI	#of units	Sq. Ft.	Monthly Rent	Total Annual Rent	**Administrative Expenses**			
1						Management Fee	7,500	3.17%	
2		4	1104	900	43,200	Salaries and Benefits	30,000		FTE
3		12	1457	976	140,544	Legal & Accounting			
4		4	1654	1,100	52,800	Advertising			
					0	Office Supplies			
					0	Telephone			
					0	Audit			
					0	Other (please specify)			
					0	**Total Administrative**	**37,500**	15.85%	
					0	**Operating Expenses**			
					0	Utilities		PUPM	0
					0	Trash Removal			
					0	Other (please specify)			
					0	**Total Operating**	**0**		
					0	**Maintenance Expenses**			
					0	Maintenance Supplies			
	Total units	20		Total Rent Income	236,544	Repairs			
	Total rental sq ft	28,516				Extermination			
				Parking Income		Grounds (inc. snow removal)			
				Laundry Income		Other (elevator, etc.)			
				Other Income (explain)		**Total Maintenance**	**0**		
				Total Income	236,544	**Other Expenses**			
	Vac. Rate	7.00%		Less Vacancy	-16,558	Real Estate Taxes	12,000		
				Effective Gross Income	219,986	Property Insurance	4,000		
						Replacement Reserve	6,000	unit avg.=	300
			DEBT SERVICE			Other (please specify)			
				1st Mortgage	(95,745)	**Total Other**	**22,000**		
				2nd Mortgage	(43,483)	**TOTAL ANNUAL EXPENSES**	**59,500**		
				3rd Mortgage	0	**NET OPERATING INCOME**	**160,486**		
				TOTAL DEBT SERVICE	(139,227)	**P.U.P.A. Expenses ***	**2,975**		
	BEP	84.01%		Poss D/S @ 1.15 DCR	139,553	* P.U.P.A = Per Unit Per Annum Expenses			
BEP = Break Even Point				**Project Debt Coverage Ratio**	1.153	**Utilities included in rent? Y/N**			
Poss D/S @ 1.15 DCR = Possible Debt Service at a 1.15 Debt Coverage Ratio						If yes, what utilities included in rent?			

PERMANENT FINANCING SOURCES: IDENTIFYING THE GAP



A list of Permanent Financing Sources is reflective or you capital stack

- Conventional Debt (Generally First Mortgage)
- Secondary Debt (Second and Third Mortgage)
- Tax Credit Equity
- Government Grants
- Other Grants
- Owner Equity

This is your gap!

GAP FINANCING

Finding creative ways to fill that financial gap is an important part of a local housing strategy. Typically, it requires some form of subsidy that helps either bring down development costs or increase the funding available for building or acquiring housing.

Access to Public Funds

- Tax Credits funds (rental development)
- State and Federal Grants
- Local Funding

Dedicated Local Housing Funds

- Provides a continues funding stream for affordable housing

Positioning for Public/Private Partnerships

- Land Banking
- Strategic Infrastructure Investments
- Direct Subsidy
- Cost Reductions

CAPITAL SOURCES TO FUND DEVELOPMENTS

TAX CREDITS

Low Income Housing Tax Credit (LIHTC)

- Encourages the construction and rehabilitation of low income rental housing by providing a federal income tax credit as an incentive to investors.
- 9%, 4%, and State Housing Credits are all available
- *Administered by the Colorado Housing and Finance Authority (CHFA)*

New Market Tax Credits (NMTC)

- Incentivize community development and economic growth through the use of tax credits that attract private investment
- *Administered by Community Development Entities, of which CHFA is one*

Historic Tax Credits (HTCs)

- Provides the developer a 20 percent tax credit on renovation expenses for the rehabilitation of historic, income-producing buildings
- *Administered by History Colorado*

FEDERAL GRANTS

HUD HOME Funds (HOME Investment Partnerships Program)

- HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households

Community Development Block Grants (CDBG)

- CDBG funds are designed to support community development activities. Housing related funds may be used for new/updated infrastructure, public facilities installation, housing rehabilitation and new construction, land clearance/acquisition, code enforcement, homeowner assistance, etc.

National Housing Trust Fund

- National Housing Trust Fund is focused on extremely low-income households (30% of AMI or below) Colorado's HTF also has a focus on supportive housing.

If you are not in an entitlement community, you will apply for these federal funding programs through the Colorado Dept. of Local Affairs Division of Housing. At this point, applications for these programs are accepted on a rolling basis

STATE GRANTS AND LOANS

Revolving Loan Funds (RLF)

- DOLA-DOH currently funds local agencies around the state to operate RLFs for Single-Family Owner-Occupied Rehabilitation (Rehab), Down Payment Assistance (DPA), and similar homeownership assistance programs.

Housing Development Loan Fund (HDLF)

- Provided by DOLA and created to meet federal matching funds requirements. This fund makes loans for development, redevelopment or rehabilitation of low- or moderate-income housing.

Housing Development Grant Fund (HDG)

- A DOLA program that provides funds for acquisition, rehabilitation, and new construction through a competitive application process to improve, preserve or expand the supply of affordable housing, to finance foreclosure prevention activities in Colorado.

STATE GRANTS AND LOANS

Colorado Affordable Housing Preservation Fund (CAHP)

- The CAHP program provides reliable acquisition financing to help developers move quickly to compete with market buyers.

Housing Development Grant Fund (HDG)

- A DOLA program that provides funds for acquisition, rehabilitation, and new construction through a competitive application process to improve, preserve or expand the supply of affordable housing, to finance foreclosure prevention activities in Colorado.

ROLE OF LOCAL GOVERNMENTS

PROPERTY ACQUISTION

Land Banking

- The practice of buying land as an investment and/or holding it for future use for affordable housing
- Publicly provided land significantly reduces the development cost

Property Acquisition/Annexation

- Public acquisition of existing land, housing, mobile home parks, motels, historic buildings for the purpose of building, preserving, and/or renovating for of affordable housing

RESOURCES

Dedicated Local Housing Fund Creation

- Provides a continuous funding stream for affordable housing
- In Summit County, voters approved a sales tax of .125% that is effective in perpetuity. All money goes towards funding affordable and attainable housing
- The Summit County Housing Authority (SCHA) receives the sales tax funds from the state and distributes to each taxing entity: Summit County, Frisco, Breckenridge, Dillon, Montezuma, and Silverthorne.

LEVERAGING LOCAL CONTRIBUTIONS

In Summit County, $76 M has been generated from the sales tax funded local fund and have been successfully used to leverage several other tools including:

- Buydown programs
- Land banking
- LIHTC Allocations
- Federal and State Loan & Grant matches
- Density Bonus Programs
- Reduced Regulatory Barriers
- Direct Subsidies to Development Costs
- Community Development Finance Institution (CDFI) loans

IMPACT/LINKAGE FEES DIRECTED TO AFFORDABLE HOUSING

New Construction Impact Fee

- A fee that is paid directly to a jurisdiction at a predetermined point during the construction phase (such as building permit, certificate of occupancy).

Commercial Linkage Fee

- A fee paid by commercial development that impacts local housing, typically a set amount per square foot. The fee can be used to funds a dedicated housing fund

PUBLIC FEE WAIVERS

A variety of public fee waivers can significantly reduce the cost of development:

- Wastewater and water tap fee waivers
- Impact fee waivers
- Permit fee waivers
- Fee "in lieu of" waivers
- Expedited review and permitting process

PRESERVING EXISTING AFFORDABLE HOUSING

Buydown Programs

- Allows a jurisdiction to purchase a favorably priced market rate unit and place a deed restriction on the property

Housing Helps – Summit County

- An incentivized voluntary deed- restriction program that has the goal of incentivizing homeowners and real estate buyers and sellers to deed restrict their property to help maintain and sustain homes for locals in the communi

PUBLIC - PRIVATE PARTNERSHIP CASE STUDY

Anvil Mount Development - Silverton, CO

- San Juan County used fees in lieu from the Purgatory Ski Resort affordable housing development fund to purchase land in Silverton and utilized DOLA grants to build infrastructure.

- Due to the inability to find interested developers, San Juan County acted as the developer to build the affordable apartment complex.

- Modular apartments allowed the County to build economically & quickly.

- The county provided a streamlined development review process.

PUBLIC – PRIVATE PARTNERSHIP CASE STUDY

Fuel and Iron – Pueblo, CO

- A developer led adaptive reuse of a vacant historic building in the heart of downtown Pueblo which utilized a variety of public funds to renovated the building that includes 28 affordable rental apartments and ground floor food hall and restaurant incubator space.

- City assistance included waived wastewater fees, and Tax Increment Financing.

- Major public funding sources included Historic Tax Credits, New Market Tax Credits, , HUD HOME Funds, and Community Development Block Grant Funds

FURTHER LEARNING

ADDITIONAL RESOURCES:

- DOLA Division of Housing
- Affordable Housing Toolkit for Local Officials
- Stay up to date with training materials and next steps for Technical Assistance. Contact
  - Andrew Atchley (719) 298-2903 andrew.atchley@state.co.us or
  - Natalie Wowk (720) 812-4137 natalie.wowk@state.co.us
  - Sign up for DOH's email blast here

THANK YOU!