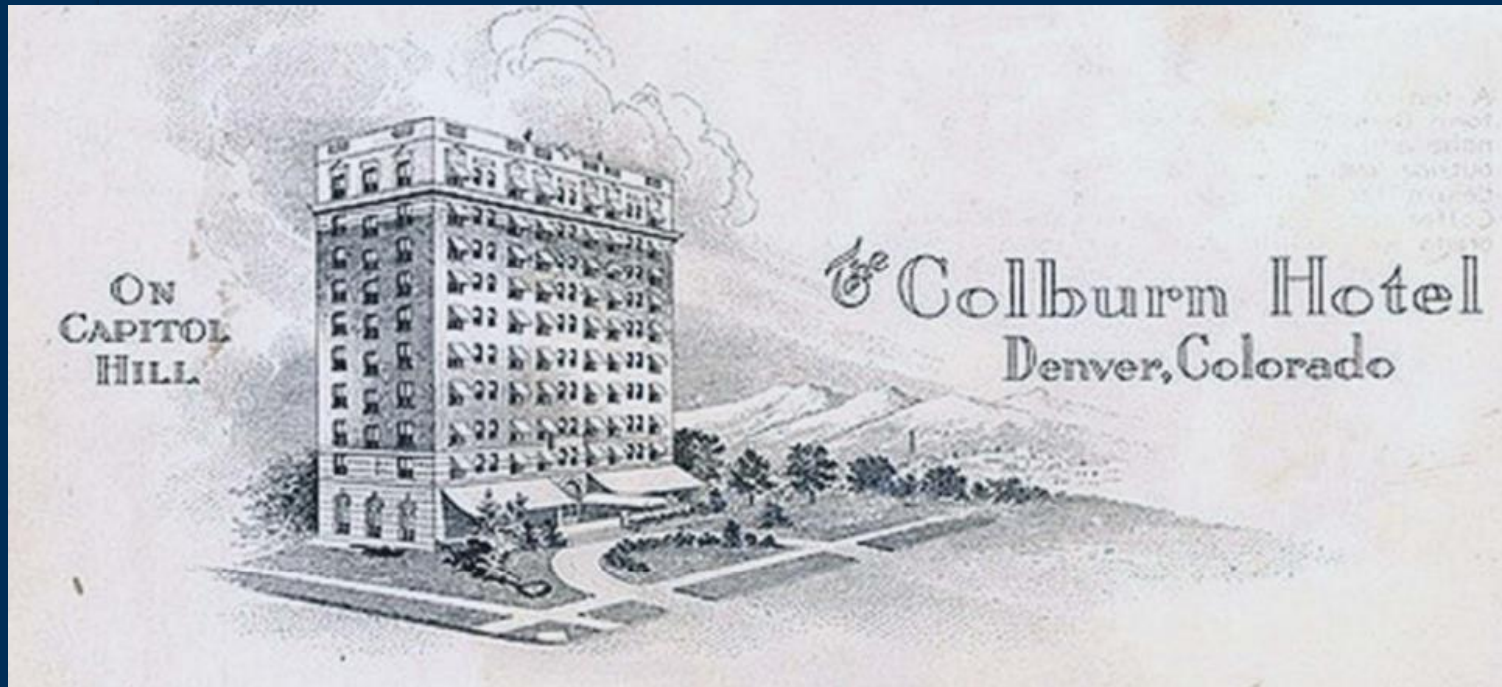


COLBURN HOTEL



Safety, Housing, Education & Homelessness Committee
Haley Jordahl, Housing Development Officer
Michael Kerrigan, Financial Analyst Specialist
March 13, 2019



DENVER
ECONOMIC DEVELOPMENT
& OPPORTUNITY

Legislative Summary

One ordinance and one resolution request to support the preservation and rehabilitation of the Colburn Hotel.

- The Colburn Hotel is an existing property in Capitol Hill that currently provides affordable housing to very low-income residents.
- The Department of Finance and the Office of Economic Development propose the following requests:
 - An ordinance request to authorize the issuance of \$13 million in private activity bonds to support the 4% + State Low Income Housing Tax Credit (LIHTC) transaction allowing for the preservation of the Colburn.
 - A request to provide a \$3,450,000 cash flow loan to Colburn, LLC to support the acquisition of the Colburn Hotel for preservation as affordable housing.

Project Context

The Colburn Hotel is an existing single-room occupancy (SRO) community located in Capitol Hill.

- The Colburn Hotel was originally constructed in 1925 and is currently being operated as an SRO community that is home to a very low-income population of tenants.
 - 16 SRO units with shared baths
 - 72 SRO units with private baths
 - 3 hotel rooms
 - 1 manager's unit
- Currently, the property is reliant on an annually renewing Section 8 Moderate Rehabilitation project-based voucher contract to provide rental subsidy
- Facing an expiring Land Use Restriction Agreement (LURA) and the potential for conversion to market-rate housing, Gorman and Company purchased the property in 2018, intending to preserve the property as affordable housing

Proposed Rehabilitation

In 2019, Gorman and Company will renovate the Colburn to improve the livability of all units and preserve the property as high-quality affordable housing.

- **Gorman and Company will rehabilitate the property to convert all units from SROs to efficiencies containing private bathrooms and kitchenettes**
- **In addition, rehabilitation of the property will include the following:**
 - Replacement of flooring, light fixtures, and plumbing
 - Add and improve community amenity areas
 - Building-wide renovations (electrical system upgrades, plumbing upgrades, elevator upgrades)
- **Following the renovation, the property will provide 91 efficiency units and 1 two-bedroom manager's unit**
- **Additionally, Gorman will convert the property's annually renewing Section 8 Mod-Rehab contract to a 20-year contract, leaving the property less vulnerable to potential loss of subsidy**

PAB Financing

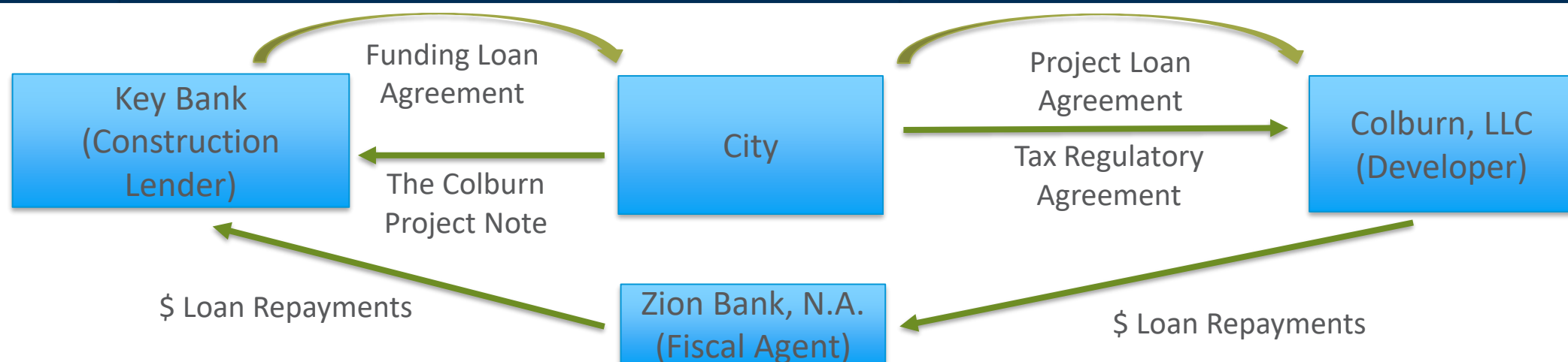
City will use a portion of its Private Activity Bond (PAB) capacity for the project

- PAB is a tax-exempt borrowing tool for a privately-owned project which meets a qualified public purpose – in this case financing long-term affordable rental housing.
 - Interest paid on the bonds is exempt from federal taxation, thus lowering the interest rate for the project.
 - If a multi-family project is awarded 4% LIHTCs, the IRS requires at least 50% of the project costs to be financed with PABs.
 - The amount of PABs that can be issued in a state is limited under federal law based on the state's population; the issuer must therefore allocate a portion of the limited PAB capacity to the financing.
- The City will issue \$13,000,000 of the City and County of Denver Colorado Multifamily Housing Revenue Notes (The Colburn Project) Series 2019
- The Notes are a special limited obligation of the City payable solely from the revenues and other funds pledged from the Colburn project. The Notes are not a debt or multiple fiscal-year obligation of the City. The City is not financially liable to the bond purchaser.

PAB Financing

Gorman and Company will use \$13,000,000 PAB capacity from the City of Denver to support the construction financing for rehabilitation.

- The City will use PAB capacity and issue Notes to Key Bank, the construction lender, under the Funding Loan Agreement
 - Key Bank will provide \$13,000,000 of Note proceeds.
- The City will use the Note proceeds to make a Project Loan to Colburn, LLC.
- The \$13,000,000 loan proceeds will be disbursed to the Colburn on a draw down basis.



PAB Financing- Construction financing

City's PAB loan will be used for construction rehabilitation and acquisition reimbursement

Funding Loan and Project Loan Terms:

- Loan disbursed on a draw down basis
- Upon completion of the rehabilitation, tax credit equity will pay down the loan to \$8 million
- Repayments on this permanent loan will begin at conversion
- Permanent loan will be repaid monthly
- Permanent loan amortizes over 35 years, and is due 15 years after conversion
- Repayment amounts will be approximately \$40,000 per month.
- Permanent loan interest rate is approximately 5% in today's market.

Source	Estimated Amount	%
Key Bank- Tax Exempt PAB	\$13,000,000	54%
Key Bank- Taxable tail	\$1,500,000	6%
Total Construction Loan	\$14,500,000	60%
Total credit equity	\$3,126,000	13%
City of Denver	\$3,450,000	14%
State HOME funds	\$985,000	4%
Deferred Dev. Fee and Reserves	\$2,293,000	9%
Total	24,354,000	100%

Permanent Project Financing

Gorman and Company has requested a \$3,450,000 cash flow loan from the City of Denver to support the preservation of the property.

- The City’s funds will contribute toward the acquisition cost of the property
- In addition to the City’s investment, the project will leverage the following sources of funds:
 - Permanent Loan
 - 4% + State Low Income Housing Tax Credit Equity
 - Federal & State Historic Tax Credit Equity
 - Colorado Division of Housing Funding
 - Deferred Developer Fee
- Converting the property’s annually renewing project-based Section 8 contract to a 20-year contract will allow the project to leverage the debt needed to accomplish the rehabilitation

Source	Estimated Amount	%
First Mortgage	\$8,000,000	33%
4% LIHTC equity	\$6,150,000	25%
State LIHTC equity	\$2,453,000	10%
Federal HTC equity	\$1,818,000	7%
State HTC equity	\$920,000	4%
City of Denver	\$3,450,000	15%
Division of Housing HOME	\$985,000	4%
Owner Equity	\$2,000	0%
Deferred Dev. Fee	\$577,000	2%
Total	24,354,000	100%

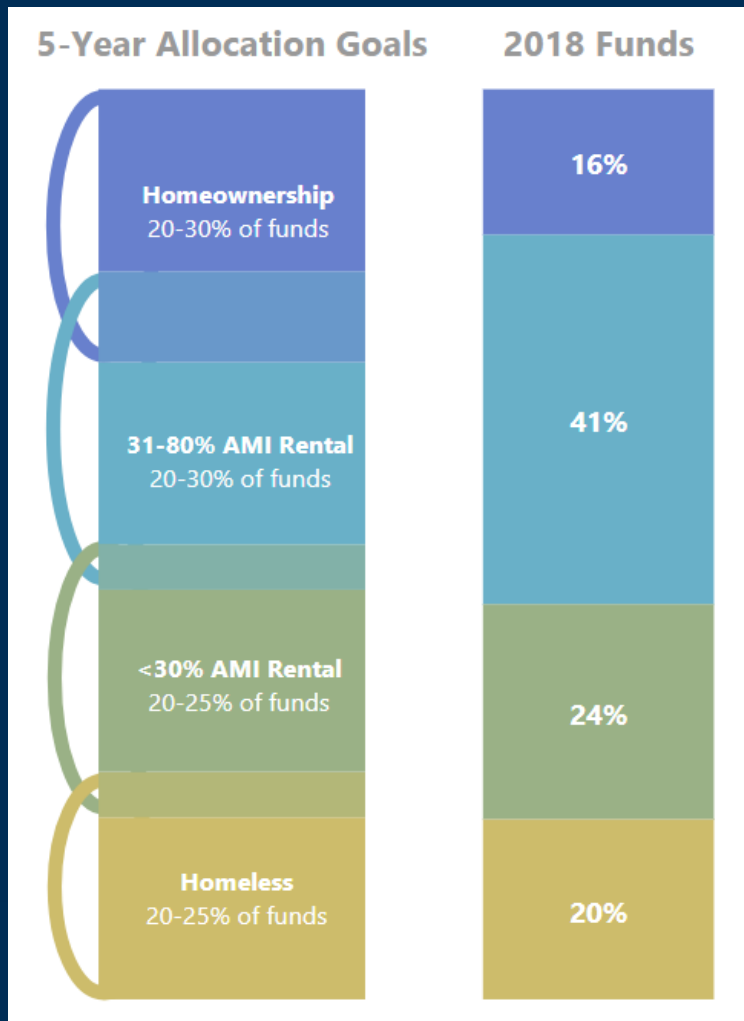
Financing Terms

The City's funding will be structured as a cash flow loan and will contribute toward the acquisition costs associated with the property.

- **Funding terms are detailed as follows:**
 - **Principal amount of \$3,450,000, or \$37,500 per unit**
 - **Interest rate of 1%**
 - **Term of 30 years from execution of the Promissory Note**
 - **Repaying loan subject to available cash flow**
 - **Covenant period of 60 years from recordation of the Covenant**
 - **23 units restricted at 30% of AMI; 68 units restricted at 60% of AMI; 1 unrestricted manager's unit**
 - **However, the 20-year project-based voucher contract ensures that the property is affordable to very low-income residents**
 - **90% of current residents earn <30% AMI**



Comprehensive Housing Plan



Housing Fund Allocation as of 9/21/18

Denver's five-year Comprehensive Housing Plan prioritizes the investment of 20-25% of funding per year toward the creation or preservation of housing for very low-income residents.

- 91 units of very low-income housing preserved
- Rehabilitation will ensure that property remains source of high-quality affordable housing in years to come

DISCUSSION

