



ULYSSES
DEVELOPMENT
GROUP

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Intro to Affordable Housing Finance



Our Mission

UDG develops, acquires, and invests in affordable housing, harnessing best-in-class practices and long-term solutions for all stakeholders and communities. UDG's values are directly in support of its mission.



People First

UDG's principals and development staff have considerable experience in affordable housing and development, on an institutional and national scale.



Integrity

We honor our commitments to our stakeholders, staff, and communities.



Continuous Improvement

We work hard every day to become better, knowing it will lead to a positive impact for all of our partners.



Do The Right Thing

When faced with difficult situations we demonstrate honesty, transparency and the courage to do the right thing.

What does a developer do?

- A LIHTC developer provides financial, design, entitlement, project management and asset management expertise to provide and maintain affordable communities
- The developer puts working capital at risk to finance pre-development costs including site selection and acquisition, design, engineering, entitlements and capital structuring
- The developer also provides a number of guaranties to counterparties including:
 - Completion Guaranty – guarantying lien-free completion to lenders
 - Construction Loan Payment Guaranty – guarantying the all or a portion of the principal amount of the construction loan
 - Operating Deficit Guaranty – guarantying the coverage of operating losses
 - Tax Credit Compliance Guaranty – a 15 year guaranty ensuring compliance with Section 42 of the IRS code, protecting LIHTC investor from recapture
- In general, a development project follows the following lifecycle:
 - 12-24 months of predevelopment
 - 24-36 months of construction
 - 6-9 months lease-up
 - 15 years tax credit compliance period

What types of funding sources are needed?

- The following funding sources need to be identified and formally committed at financial closing (groundbreaking)
 1. Construction Financing – short-term (36 month), variable-rate debt that helps finance construction and is converted to Permanent Debt at stabilization. Typically provided by commercial lenders.
 2. Permanent Debt – long-term, fixed-rate permanent debt. Typically provided by agencies (FNMA, FMAC, HUD), commercial lenders, CHFA
 3. LIHTC
 4. Subordinate Cash Flow Debt – long-term, low interest rate debt typically provided by State, Local governments or housing authorities. Typically structured as an accruing loan which shares cash flow after payoff of developer fee
 5. Subordinate Hard-Pay Debt – long-term, typically low-interest rate debt provided by CDFIs, governments, other lenders that does not accrue and is payable before payoff of deferred developer fee
 6. Deferred Developer Fee – a portion of developer profit that is deferred through cash flow rather than being paid during development. Developer fee can be deferred for up to 15 years

What funding sources are available in Colorado?

- Colorado has a variety of funding sources, largely designed to be paired with LIHTC, to ensure financial feasibility
 - Tax Credits
 1. LIHTC (4% and 9%) – CHFA
 2. State Tax Credit - CHFA
 3. Accelerated State Tax Credit – CHFA
 4. Transit Oriented Communities Tax Credit – CHFA
 - Subordinate Cash Flow Debt
 1. CDOH Funding Sources – DOLA (primarily used for LIHTC)
 2. Denver HOST
 - Hard-Pay Sub Debt
 1. Prop 123 Concessionary Debt (not primarily for LIHTC)
 2. CDFIs (Impact, Weave), CCEF
- Each funding source comes with its own affordability requirements and terms and must be coordinated and “layered” with all other sources

Example: Harvest Hill, Broomfield

- Since 2021, UDG has been working on a 152-unit (1, 2 and 3 bedrooms), transit-oriented development in Broomfield
- Harvest Hill provides units from 30-70% AMI and is being developed in partnership with Broomfield Housing Alliance
- Applied 2x for state tax credits unsuccessfully due to statewide demand
- In 2024, CHFA agreed to provide PAB from its allocation and serve as permanent lender
- Harvest Hill leverages almost every financing source available in Colorado and will break ground in Q1 2025



Harvest Hill Permanent Sources & Uses

| Sources of Funds: | Type | PERMANENT | | Notes |
|---------------------------------|-------------------|----------------------|-------------------|--|
| | | Total | Per Unit | |
| Federal LIHTC | Tax Credit | \$ 19,100,000 | \$ 125,658 | 4% Federal LIHTC Credits sold to USBank |
| State Accelerated LIHTC | Tax Credit | 3,800,000 | 25,000 | New Accelerated State Tax Credits sold to USBank |
| Energy Tax Credits | Tax Credit | 95,000 | 625 | Federal solar ITC sold to USBank |
| Permanent Debt | Permanent Debt | 26,700,000 | 175,658 | CHFA's HUD risk-share permanent debt product sized to 1.15x DSCR |
| CCEF Loan | Hard-Pay Sub Debt | 2,000,000 | 13,158 | Provided by Colorado Clean Energy Fund and IDF |
| More Housing Now - DOLA / DLG | Soft-Pay Sub Debt | 2,000,000 | 13,158 | Granted by DLG to Broomfield and then loaned into project |
| Broomfield Loan | Soft-Pay Sub Debt | 2,000,000 | 13,158 | Loaned from Broomfield into project |
| DOLA CDOH Loan | Soft-Pay Sub Debt | 2,000,000 | 13,158 | Loaned from CDOH into project |
| Interim Income from Operations | | 600,000 | 3,947 | |
| Deferred Developer Fee | | 2,835,000 | 18,651 | UDG is deferring approximately 45% of its fee for 8 years |
| Total Sources of Funds | | \$ 61,130,000 | \$ 402,171 | |
| Uses of Funds: | | PERMANENT | | Notes |
| | | Total | Per Unit | |
| Land Acquisition | | \$ 2,650,000 | \$ 17,434 | UDG rezoned the land and is purchasing it at financial closing |
| Construction Hard Costs | | 39,000,000 | 256,579 | Taylor Kohrs pricing |
| Impact Fees | | 4,700,000 | 30,921 | Broomfield water, sewer and other impact fees |
| Architecture & Engineering Fees | | 2,500,000 | 16,447 | Design costs |
| Tax Credit Fees | | 270,000 | 1,776 | Costs of CHFA tax credit allocation |
| PAB Costs of Issuance | | 540,000 | 3,553 | Cost of CHFA PAB issuance |
| Construction Financing Costs | | 3,400,000 | 22,368 | Construction interest reserve |
| Permanent Financing Costs | | 270,000 | 1,776 | CHFA permanent loan costs |
| Reserves & Escrows | | 1,600,000 | 10,526 | Lender and equity required reserves (operating, leaseup, etc.) |
| Soft Cost Contingency | | 100,000 | 658 | |
| Developer Fee | | 6,100,000 | 40,132 | CHFA 12% developer fee |
| Total Uses of Funds | | \$ 61,130,000 | \$ 402,171 | |

What is the developer's risk for Harvest Hill?

- By closing of financing / construction start, UDG will have advanced roughly \$1.7 million in at-risk funding to get entitlements and arrange financing
- Additionally, UDG is providing the following guaranties on balance sheet:
 - Completion Guaranty – uncapped guaranty to cover cost overruns for construction period (~36 months)
 - Construction Loan Payment Guaranty – \$31.6 million principal payment guaranty for construction period (~36 months)
 - Operating Deficit Guaranty – uncapped guaranty to cover operating shortfalls for 15 years
 - Tax Credit Compliance Guaranty – \$26.7 million guaranty of total tax credit proceeds for 15 year compliance period
- Nationally, successful public-private partnerships and funding sources provided transparency, predictability and consistency to enable and induce developers to take and maintain on-balance sheet risk

What does development look like without LIHTC?

- Using Harvest Hill as an example, what happens if LIHTC is not leveraged?
 - Because of LIHTC constraints some communities throughout the country are now fully-subsidizing development with very low interest, long-term loans
- The table below shows the full cash subsidy requirement without LIHTC for Harvest Hill at a 30%, 60% and 80% AMI

| Sources of Funds: | Type | 30% AMI | | 60% AMI | | 80% AMI | |
|-------------------------------|----------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | | Total | Per Unit | Total | Per Unit | Total | Per Unit |
| Federal LIHTC | Tax Credit | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| State Accelerated LIHTC | Tax Credit | - | - | - | - | - | - |
| Energy Tax Credits | Tax Credit | 95,000 | 625 | 95,000 | 625 | 95,000 | 625 |
| Permanent Debt | Permanent Debt | 7,800,000 | 51,316 | 26,700,000 | 175,658 | 39,212,687 | 257,978 |
| Total Subsidy Required | | 50,400,000 | 331,579 | 31,500,000 | 207,237 | 18,987,313 | 124,917 |
| Deferred Developer Fee | | 2,835,000 | 18,651 | 2,835,000 | 18,651 | 2,835,000 | 18,651 |
| Total Sources of Funds | | \$ 61,130,000 | \$ 402,171 | \$ 61,130,000 | \$ 402,171 | \$ 61,130,000 | \$ 402,171 |

- In order to fully-fund income-restricted developments without LIHTC, subsidy request between \$125k and \$350k per unit should be expected depending on the depth of affordability

What does this mean for Denver?

- Denver is subject to the same constraints that the rest of Colorado is – limited allocation of Private Activity Bonds and limited allocation of 9% credits
- State-wide resources are distributed throughout the state to ensure Front Range, rural resort and Western Slope communities can continue to provide housing opportunities across the housing continuum
- In any given year, Denver could deploy roughly \$45 million of Denver PAB and expect one State Tax Credit award and one 9% LIHTC award from CHFA
 - \$45 million of PAB would support ~\$90mm of 4% LIHTC development, or 225 units at \$400,000 per unit
 - One State Tax Credit project would likely be between 100-200 units
 - One 9% LIHTC project would likely be between 50-100 units
 - Assuming an efficient allocation of PAB to a smaller number of larger developments, Denver could reasonably finance 375 - 525 units per year using LIHTC and tools in Colorado
- If Denver seeks to fully-subsidize developments to produce more units given LIHTC constraints, Denver should be prepared to fund \$125-350k per unit for new units

Questions?



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