

Northfield Flats Private Activity Bond (“PAB”) Summary

This ordinance approves the City’s issuance of multifamily tax-exempt housing revenue bonds, use of PAB allocation, and various agreements to provide part of the construction financing for an affordable housing project called Northfield Flats. The project is anticipated to be a 4-story, 129-unit affordable multifamily housing apartment project located at 4545 Xenia St. in Denver.

The project sponsors, Mile High Development and Brinshore Development are partnering to build the project. Mile High Development and Brinshore Development will create a new entity called Northfield Flats LLC to be the borrower for the project. The project will utilize a portion of the City’s allocation of PAB, which allows Northfield Flats LLC to access tax-exempt rates to finance the project.

The City will issue bonds in two series for this project in an aggregate amount not to exceed \$19,541,667:

- Multifamily Tax-Exempt Mortgage-Backed Bonds (M-TEBS) [SOCIAL] (Northfield Flats Project) Series 2023A.
- Multifamily Housing Revenue Bonds (Northfield Flats Project) Series 2023B.
- The Series 2023A bonds will have a 20 year maturity and an interest rate that will be determined when the bonds are priced, but in no event greater than 12%.
- The Series 2023B bonds will have a 3.5 year maturity and an interest rate that will be determined when the bonds are priced, but in no event greater than 12%.

KeyBanc Capital Markets will purchase the bonds for the project and provide bond proceeds not to exceed \$19,541,667 to the City via the Bond Purchase Agreement. The City will in turn provide these bond proceeds to Northfield Flats LLC via the Financing Agreement. The bond proceeds will be disbursed on a drawdown basis to coincide with periodic construction completion intervals. Northfield Flats LLC’s obligation to the City will be evidenced by a Bond Note and a Security Instrument. Upon completion of construction the construction loan will convert to a permanent loan, and Zions Bancorporation, N.A., as the Trustee of the transaction (“Zions”), will use money deposited in the various PAB funds to pay off the Series 2023B bonds and purchase a mortgage backed security (“MBS”) as security for the Series 2023A bonds. Northfield Flats LLC will make loan repayments to Zions, and the loan repayments will pass through the to the MBS to repay the principal and interest on the Series 2023A bonds.

The bonds are a special limited obligation of the City, not a debt of the City, and are payable solely from the pass-through repayments received from Northfield Flats LLC.

Bond Purchase Agreement

Parties: City and KeyBanc Capital Markets, Inc.
Overview: KeyBanc agrees to purchase the City’s bonds on the closing date.

Indenture of Trust

Parties: City and Zions Bancorporation, N.A.
Overview: Establishes Zions as the Trustee for the bonds, and contains all particulars for bond proceeds, release of bond proceeds to borrower, repayment of bonds, various bond funds, and related covenants.
The Trustee makes funds available to the City so the City can then loan the proceeds to Northfield Flats LLC. City agrees to send payments received under the Financing Agreement to the Trustee.
The City executes and delivers to Zions (as the Trustee of the investors) Bonds evidencing its obligation to make pass through payments to the Trustee.

Financing Agreement

Parties: City, Zions Bancorporation, and Northfield Flats LLC
Overview: The City loans Northfield Flats LLC the bond proceeds.
Northfield Flats LLC repays Zions, as the Trustee, the principal, interest, and any premium of the bonds.
Northfield Flats LLC executes the promissory Bond Notes.

Tax Regulatory Agreement

Parties: City, Zions Bancorporation, and Northfield Flats LLC
Overview: Outlines the administrative duties and restrictions of the property and Northfield Flats LLC to keep the property within IRS guidelines for tax-exempt debt and tax credit projects.
The Tax Regulatory Agreement also places affordability restrictions on the project.

Private Activity Bonds Overview:

- Private Activity Bonds (PAB) are tax-exempt bonds issued by or on behalf of the City and County of Denver for projects that primarily benefit private entities or end users. PABs are often issued to help attract private investments into certain qualified projects that will have a public benefit, like affordable housing.
- Due to the tax-exempt nature of the bonds, the IRS limits the amount of PABs allocated year. The IRS allocates a certain amount of PAB capacity to the states based on population and, in turn, Colorado further allocates PAB capacity to local issuers like Denver.
- Through PABs, the City can borrow at tax exempt rates for private entities to lower the borrowing costs for those entities for certain public-benefitting projects, but the City does not pledge its credit for these bonds. The City is merely the tax-exempt conduit bond issuer, and the underlying borrower pays the City an issuance fee.
- PABs do not count toward the City's debt capacity, and the ratings are based on the credit of the underlying borrower and the financing structure.
- PABs are special limited obligations payable solely from the revenues and funds pledged from the underlying borrower.
- The underlying borrower, not the City, is financially liable to the bond purchaser.
- In the past, the City has issued PABs for numerous affordable housing projects, including the projects at the Parkhill Village West to provide 156 affordable housing units and at 2300 Welton to provide 233 affordable housing units.
- PABs are very different types of bonds from General Obligation Bonds, which require voter approval and do count toward the City's debt capacity.