



## **Ketchum Urban Renewal Agency**

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**P.O. Box 2315 | 191 5<sup>th</sup> Street | Ketchum, ID 83340**

November 13, 2023

Chair and Commissioners  
Ketchum Urban Renewal Agency  
Ketchum, Idaho

### **RECOMMENDATION TO REVIEW, DISCUSS AND PROVIDE DIRECTION TO STAFF ON FUNDING OPTIONS FOR 1<sup>ST</sup> STREET AND WASHINGTON AVENUE PROJECT**

#### Introduction/History

As background, the project site at 1<sup>st</sup> and Washington consists of four parcels, lots 5, 6, 7, and 8 in block 19. In 2006 the KURA purchased the two southern parcels, lots 7 and 8, for the purpose of developing an affordable housing project. In 2011 the KURA issued a request for proposal for an affordable housing development. A developer was selected, however due to community opposition, the project was abandoned. In 2018 the KURA purchased the two lots to the north, lots 5 and 6 for the purpose of expanding the parking lot and creating a larger site for a future affordable housing project. Since 2006, the KURA has been working towards development of the property for affordable housing.

At the November 6, 2023 KURA meeting to review the Draft Development and Disposition Agreement and Ground Lease, the Board requested information on project financing and the options for KURA financial support. This report provides information on the following issues related to the First and Washington Project:

- Summary of developer proforma options to fund the project
- KURA current and projected revenue available for the project
- Options for KURA funding

#### Project Proforma Summary

As outlined in Attachment A, the financing structure for the project consists of interim construction financing and permanent financing. Total hard and soft costs for the project are projected at \$23,582,251 and \$2,354,079 for construction financing for a project cost of \$25,936,330. Permanent bond financing costs are estimated to be \$2,669,786 resulting in a total project cost of \$28,606,117.

Permanent financing would consist of issuing “A bonds” to fund 70% of the project cost and “E notes” to fund 30% of the project cost. The E notes would be sold to governmental and 501c3 not for profit entities for employee housing.

The development team has prepared three scenarios for financing the project:

1. A below current market A bond interest rate at 4% which results in weighted average rents at 105% of AMI, which is from the original WRCHT proposal in response to the KURA RFP.
2. A scenario that assumes higher rents at 128% of AMI which is consistent with the KURA AMI targets from the RFP, which results in requiring a below market rate A bond interest rate of 5.4%+/- that can be serviced from operations.
3. A scenario using 6.25% interest rate as the assumed current interest rate on the A bonds pushes the rents up to 142% of AMI +/- in order to service the debt.

Based on the above scenarios, it is anticipated the project would need the following financial assistance:

Scenario 1: Based on the most recent interest rate quote of 6.25%, in order to offset the originally proposed, 4% interest rate for A bonds and rents at 105% of AMI the project needs ~\$8million in funding assistance, or an approximate annual financial contribution of \$471,396.

Scenario 2: By increasing rents averaging 128% of AMI, which is the average weighted AMI per the RFP, and with a 5.4% interest rate, the project would need ~\$3.5 million in funding or an approximate annual contribution of \$180,352.

Based on Developer's response to the KURA RFP should interest rates fall to 4% the project is deemed feasible and KURA's participation would include only utility infrastructure support and demolition, site preparation and site excavation.

Under Scenario 2, in the event the weighted average rent levels need to be reduced from 128% of AMI to a lower average such as 105%-110%, additional funding assistance will be necessary.

#### Issues for Consideration

- Will there be a demand for the amount of E notes at 2% interest rate?
- In Scenario 2, the weighted average AMI rents are at 128%. Approximately 40% of the units will be priced at the 120%-155% AMI range. It is unclear if the market will support rent levels at this range for studio and one-bedroom units. It may be necessary to reduce the average weighted AMI to 110% of AMI resulting in the need for additional funding.
- Is the rent spread from studios to one bedroom to two-bedroom units the appropriate spread?
- Construction cost increases have moderated, but that could still be an issue that impacts project costs.
- There is still continued volatility with interest rates.

#### KURA Financial Projections and Agency Funding Options

Attachment B provides the revenue projections for the Agency through 2030. In summary, the Agency has approximately \$5 million in unallocated funds. Between FY25 and FY30, the Agency has close to \$11 million dollars in net funds. The annual amounts range from \$1.3 to \$2.3 net

funds available for projects. The KURA has the financial capacity to provide funding for the project and provide funding for city infrastructure projects.

For the project, the Agency has the ability to provide a combination of lump sum and on-going funding towards eligible expenses to assist with the \$3.5-\$8.0 million funding gap for the project.

### **Funding Options**

There are several funding options for board consideration that could assist with the project funding gap. There are two approaches to consider, one is to provide funding for eligible expenses that would reduce the overall construction cost that in turn would reduce the amount that needs to be financed thereby reducing the cost of financing and the cost of the project. The other approach is to provide funding for eligible expenses to off-set funding gap. The following are options for board consideration:

- Contributing towards traditional infrastructure improvements such as work in the public right of way.
- Contributing towards site preparation such as grading and excavation.
- Contributing towards specific permanent elements of the project such as foundation and structure because the project will be a public asset upon completion of the lease.
- Contributing towards project parking, in the event an agreement is reached to share the parking with the public when excess parking is available.
- Exploration of an affordable housing assistance payment to provide rent levels at the desired average AMI levels.

It is likely some or all of the above options will be necessary to achieve the projected funding gap.

### **Board Direction**

At this time staff is requesting the following direction from the Board:

- What range of financial support the Agency is willing to consider?
- If there is support for financial assistance, is there a preference for one-time funding or on-going funding or a combination of both?

If the board supports financial assistance for the project, staff will work with the development team to prepare a funding approach for board consideration.

### **Attachments:**

A: Project Proformas

B: KURA Revenue and Expense Projections



## Attachment A

**First and Washington Summary Worksheet**

**Development/Construction Budget**

Total Site and Due Diligence	\$55,000
Total Hard Costs	\$19,021,500
Total Soft Costs	\$2,115,324
Total Contingency	\$1,156,841
Total Professional Fees	<u>\$1,233,586</u>
TOTAL PROJECT COST WITHOUT FINANCING	\$23,582,251
Total Financing Costs	<u>\$2,354,079</u>
TOTAL PROJECT COST WITH CONSTRUCTION FINANCING	\$25,936,330
Total Bond Financing Costs	<u>\$2,669,786</u>
TOTAL PROJECT COST WITH FINANCING	\$28,606,117

**Operating Expenses**

Payroll	\$141,175	\$2,139
Utilities	\$26,862	\$407
Unit Turn/Make Ready	\$11,400	\$173
Contracted Services	\$34,220	\$518
Repairs & Maintenance	\$5,550	\$84
Marketing	\$40,940	\$620
General & Administrative	\$18,740	\$284
Management Fees	\$49,925	\$756
Property Insurance	\$23,100	\$350
Property Taxes - Residential	\$0	\$0
Total Residential Operating Expenses	<u>\$351,912</u>	<u>\$5,332</u>

**Debt Service and Resulting Rents**

Assumed occupancy rate	95%
Assumed debt service coverage ratio	105%

	Annual Debt Service	Resulting weighted average rental AMI	Approximate Resulting Financial Gap	Approximate Annual Financial Gap
Debt Service on double tax exempt bonds at 4%	\$951,809	105%		
Debt Service on double tax exempt bonds at 5.4%	\$1,242,853	128%	\$3,500,000	\$180,352
Debt Service on double tax exempt bonds at 6.25%	\$1,423,205	142%	\$8,000,000	\$471,396

## Attachment B

KURA Summary Financials	Historical												Projected						
	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Tax Increment Revenue	631,188	674,391	756,661	877,474	1,031,616	1,167,240	1,414,371	1,656,375	1,762,498	1,870,533	2,116,188	2,163,309	2,228,091	2,361,776	2,503,483	2,653,692	2,812,914	2,981,688	3,160,590
Debt Service	371,347	385,530	398,668	411,453	423,319	429,555	444,655	456,372	459,120	292,987	519,436	526,555	542,206	541,706	539,481	541,461	537,381	542,506	541,306
Net Revenue	259,841	288,861	357,993	466,021	608,297	737,685	969,716	1,200,003	1,303,378	1,577,546	1,596,752	1,636,754	1,685,885	1,820,070	1,964,002	2,112,231	2,275,533	2,439,182	2,619,284
OPA Payments													200,000	138,000	138,000	134,500	126,500		
Operating Expenses													299,600	299,600	299,600	299,600	299,600	299,600	299,600
Future Expenses													820,000						
Net Funds Available													1,186,285	1,382,470	1,526,402	1,678,131	1,841,433	2,139,582	2,319,684
Infrastructure Projects													3,000,000						
Undesignated Fund Balance													5,000,000						
Growth in Increment		6.8%	12.2%	16.0%	17.6%	13.1%	21.2%	17.1%	6.4%	6.1%	13.1%	2.2%	3.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

10,887,702 Total Net Funds