



City of Ketchum

April 4, 2022

Mayor Bradshaw and City Councilors
City of Ketchum
Ketchum, Idaho

Mayor Bradshaw and City Councilors:

Update on Bluebird Community Housing Project

Recommendation and Summary

Staff has been working with representatives from both GMD Development and Ketchum Community Development Corporation (KCDC) regarding their updated construction/financing costs associated with implementation of the Bluebird Community Housing Project. Attached is a letter from GMD and KCDC outlining their request with supporting documentation of the original and updated financial proformas.

The GMD/KCDC presentation to Council will review key variances in their financial pro forma, which includes the dramatic increase in construction costs and unprecedented decline in Blaine County Area Median Income (AMI). City staff will need direction from the Council to prepare the final financial participation agreement for Council approval (April 18th).

Introduction and History

During the October 4th meeting, City Council approved the design for the Bluebird Community Housing project as recommended by the Planning and Zoning Commission. Findings of Fact and Conclusions of Law were later adopted by the Council. On November 18th, the City Council approved a long-term lease for the project.

The development team is now working with the city regarding issuance of their building permit. The city has already formally surplus-ed old city hall and awarded a demolition contract to a local vendor. The contractor has completed the asbestos remediation and recycled building materials; full demolition is expected to begin next week.

Sustainability Impact

The availability of community housing in the city limits reduces trip generation associated with local workers.

Financial Impact

A local funding match was a major factor in the successful award of federal tax credits by Idaho Housing Finance Association. The city's original commitment was \$1.4 million and is now being requested to increase to \$3.3 million to address the increase in construction costs and impact of decreased Blaine County AMI. City staff will be prepared to review the current balance of the In-Lieu Housing Fund.

Attachments

Letter from GMD and KCDC



March 31, 2022

Jade Riley
City Administrator
City of Ketchum
191 5th Street West
Ketchum, ID 83340

Suzanne Frick
Executive Director
Ketchum Urban Renewal Agency
191 5th Street West
Ketchum, ID 83340

**RE: Bluebird Village Additional Funding Request
Housing In Lieu Fund
KURA Infrastructure Fund**

Dear Jade and Suzanne,

As you know we last applied for local gap funding for the Bluebird Village project during the summer of 2020 as part of second application for low income housing tax credits from IHFA, which successful in obtaining an award. Since that time we have moved forward with the project design and permitting process. In addition, we have recently updated our cost estimate and financial underwriting of the 51 unit development. Since the application for tax credits the development environment for all new construction projects has changed dramatically because of impacts from the COVID 19 pandemic, supply chain disruptions, labor shortages, historically high inflation, and significant migration to Idaho and Blaine County which has made the need for housing even more acute. Construction costs related to material and labor are up significantly, yet the area median income/rent limits for Blaine County have decreased over 4.7% since the 2020 funding applications were submitted, causing a material decrease in supportable mortgage debt. The overall 51-unit Bluebird Village project has seen an increased total development cost of \$3.8 million, and a decline of source loan proceeds of \$1.82 million, a negative total source and use swing of \$5.74 million. While most of this change is expected to be met by the 4% and 9% tax credit portions of the project financing, additional local contributions from the Housing in Lieu Fund and the KURA are needed to maintain feasibility. Therefore, with this letter we would like to request additional funding in the amount of \$1,900,000 from the City of Ketchum Housing in Lieu Fund and additional funding of \$255,953 (plus the cost of any qualifying plan review additions) from the KURA infrastructure fund.



Attached as Exhibit One to this letter is a summary source for the project comparing the Source and Use of the project from August 2020 to today. This summary shows how the project has changed in each major cost category and financial sources for each program since the original local funding request in the summer of 2020. Below is a discussion of the cost increases, decrease in supportable debt and other factors which have contributed to the need for additional funding for the project.

PROJECT COSTS

The most significant change in project costs came in hard construction costs which are up over \$3.65 million from the original budget estimates to the current estimate (see attached Exhibit Two). Construction industry material, labor and transportation costs are all up 20% since the summer of 2020, primarily because of effects of the COVID pandemic (see attached industry information). In addition, a spike in construction activity and labor shortages in Blaine County (and Idaho) has made it difficult to obtain competitive bidding from multiple subcontractors in the local market and regionally. Everyone is busy with work in their local market. Conrad Brothers construction has worked hard to leverage its subcontractor relationships to obtain reasonable costs in the new environment. Bluebird's cost increase is consistent with the industry trends. We have worked hard with the design team to incorporate alternative materials at a lower cost, but basic materials like lumber, concrete and steel do not have viable alternatives. Recognizing the continuing dynamic development environment and pending 2022 material cost increases that have been announced, GMD Development has already taken a contract position regarding the lumber for the project to avoid a \$90,000 cost increase. And it will likely have to take further material contract positions prior to closing to maintain the existing cost estimate.

Soft costs have not seen as much of an increase, but they are up as well. We have been able to negotiate a lower 3 month funded operating reserve, with the other 3 months in the form of a 15 year guarantee from GMD which reduces upfront funded reserves materially. We have been able to lock the construction loan interest rate at this time so we are also showing some savings in that area.

FINANCING / SUPPORTABLE DEBT / EQUITY MARKET

The tax credit applications submitted in early September 2020 utilized the then effective HUD AMI information for 2020. Since that date the 2021 AMI for Blaine County has been released as well, and GMD has obtained the projected 2022 AMI from Novogradac. From 2020 to 2022 the Blaine County AMI has gone down by 4.7%, resulting in an average rent reduction on the 4% project of about \$60 per unit per month. Combine this with increased permanent interest rates



of 75bhps on the 9% deal and 60bhps on the 4% deal, higher operating expense projections and the loss of 5 units in the 4% project due to Design Review considerations, the total supportable hard debt for the hybrid project has declined \$1.82 million. Given the extremely tight housing market in Ketchum we are negotiating for a 5% vacancy rate in the underwriting which is included in these numbers and does help mitigate the supportable loan dilution. We do have revised final construction and permanent loan term sheets from Glacier Bank with locked interest rates for the construction and permanent loans, so this part of the financing is firm at this time despite the rising interest rate environment.

On the equity side of the equation we have seen tax credit pricing decline some since the summer of 2020 with investor fund yields moving up. However, we have been able to attract Freddie Mac as a direct investor in the deal which will help them meet certain rural investment objectives, and lower investor yield targets. Therefore, despite the tax credit equity market moving against us, we expect to maintain proceeds with similar pricing from the original tax credit applications in 2020. In addition, we have been able to negotiate the funded operating reserve down from 6 months to 3 (with the other 3 being in the form of a guarantee) which has created some upfront savings. We do not have revised final investor letters at this time but expect them in the coming days.

In summary because of changes in the development cost and financing environment a sources gap of \$5.74 million has been created. Five sources of are coming together to cover this gap. This request for additional local resources is significant, but necessary to see the project move forward. Below is a summary of the variety of sources being used to cover the gap.

INCREASED SOURCES

KURA	255,953	4%
City of Ketchum	1,900,000	33%
Retail Space	418,000	7%
4% Tax Credits	2,604,051	45%
9% Tax Credits	568,860	10%
TOTAL	5,746,864	100%



Bluebird Village represents a long community effort to create affordable rental housing in Ketchum. From its inception the story of Bluebird Village has been full of challenges. And now not only is it facing the same historically high development cost increases as projects in all locations, but the additional rare burden of a declining AMI in Blaine County that has significantly impacted the supportable loans for the project. GMD has moved quickly to lock in interest rates and obtain the best underwriting to minimize the impact, but it is still real. We have also moved to lock in contracts on certain materials to manage further cost increases. We are taking extraordinary steps with tremendous risk exposure to minimize the gap in a very dynamic development environment to keep the project moving forward. We hope the City of Ketchum and the KURA can give its strongest consideration to granting this request for additional local funding to ensure the success of Bluebird Village.

Sincerely,

A handwritten signature in blue ink, appearing to read 'G. Dunfield', is written over the printed name.

Gregory M. Dunfield
President / Owner

EXHIBIT ONE

SUMMARY TOTAL HYBRID PROJECT (51 Units)

		Aug 2020	Feb 2022	
DEBT	Conv Loan / TE Bonds	5,882,823	4,054,000	(1,828,823)
	KURA	564,860	820,813	255,953
	City of Ketchum	1,400,000	3,300,000	1,900,000
	Other	0	0	0
	Retail Condo Sale / Loan	850,000	1,268,000	418,000
	DDF	626,394	511,543	(114,851)
EQUITY	TC Investor	12,465,972	15,638,883	3,172,911
	Solar Tax Credits	44,460	44,460	0
	NOI	84,447	87,737	3,290
	Total	<u>21,918,956</u>	<u>25,725,436</u>	<u>3,806,480</u>
USES				
	Land	10	10	0
	Hard Construction	16,004,664	19,662,599	3,657,935
	Soft Construction	2,095,577	2,210,730	115,154
	Third Party Reports	59,000	83,041	24,041
	Lender Financing Costs	367,406	317,156	(50,250)
	Bond COI	128,150	139,150	11,000
	Const Period Interest	770,000	700,000	(70,000)
	Soft Costs	425,022	678,658	253,636
	Reserves	269,127	134,110	(135,016)
	Developer Fee	1,800,000	1,799,982	(18)
	Total	<u>21,918,955</u>	<u>25,725,436</u>	<u>3,806,481</u>
	Cash Developer Fee	1,173,606	1,288,439	114,833
			5.01%	

Blaine County, ID

Novogradac & Company LLP's AMI Analysis

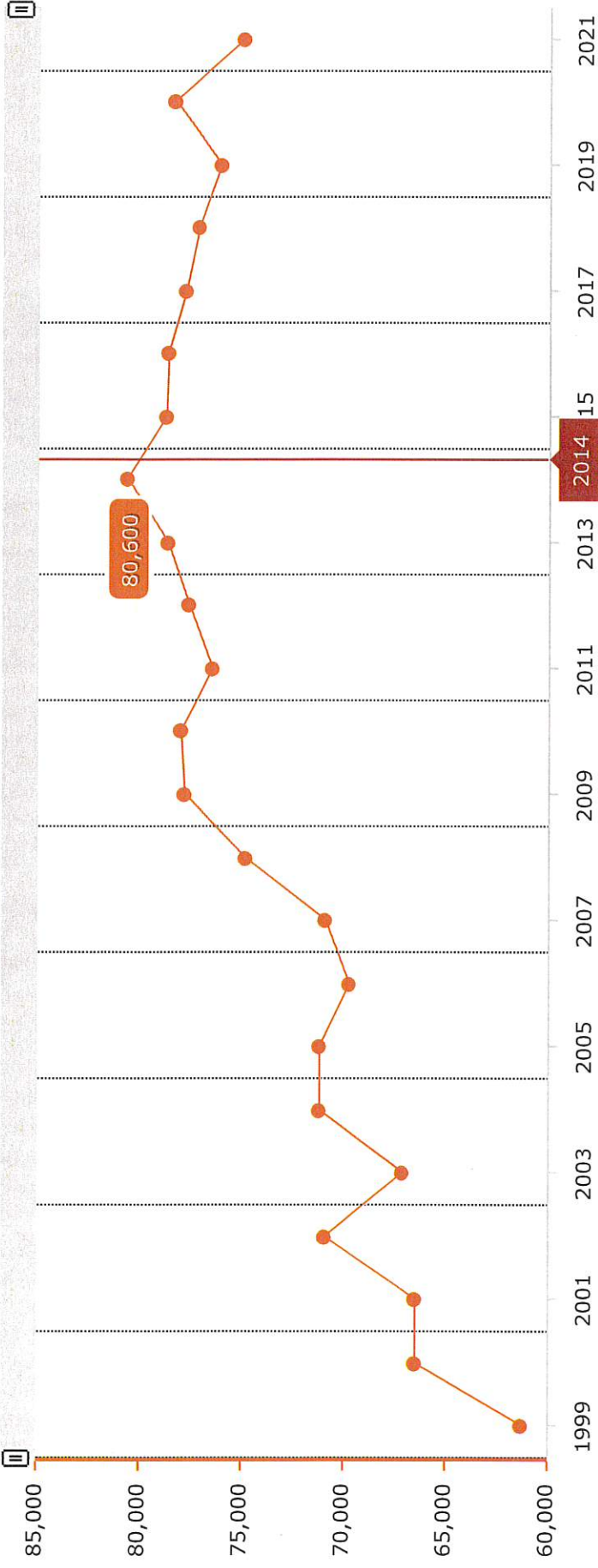
Area Median Income (100%)

	2017	2018	2019	2020	2021	2022
1 person	\$54,500	\$54,000	\$53,300	\$54,900	\$52,500	\$52,300
2 people	\$62,200	\$61,800	\$60,900	\$62,700	\$60,000	\$59,800
3 people	\$70,000	\$69,500	\$68,500	\$70,600	\$67,500	\$67,200
4 people	\$77,800	\$77,200	\$76,100	\$78,400	\$75,000	\$74,700
5 people	\$84,000	\$83,400	\$82,200	\$84,700	\$81,000	\$80,700
6 people	\$90,200	\$89,600	\$88,300	\$90,900	\$87,000	\$86,700
7 people	\$96,500	\$95,700	\$94,400	\$97,200	\$93,000	\$92,600
8 people	\$102,700	\$101,900	\$100,500	\$103,500	\$99,000	\$98,600
Change		-0.77%	-1.42%	3.02%	-4.34%	-0.40%

100% Rent Limits

1 Person / Bedroom + 1	2017	2018	2019	2020	2021	2022
Studio (1.0)	\$1,362	\$1,350	\$1,332	\$1,372	\$1,312	\$1,307
1 bedroom (1.5)	\$1,458	\$1,447	\$1,427	\$1,470	\$1,406	\$1,401
2 bedrooms (3.0)	\$1,750	\$1,737	\$1,712	\$1,765	\$1,687	\$1,680
3 bedrooms (4.5)	\$2,022	\$2,007	\$1,978	\$2,038	\$1,950	\$1,942
4 bedrooms (6.0)	\$2,255	\$2,240	\$2,207	\$2,272	\$2,175	\$2,167
5 bedrooms (7.5)	\$2,490	\$2,470	\$2,436	\$2,508	\$2,400	\$2,390

This estimate was calculated using the same method and source data that HUD uses to calculate Area Median Income (AMI). The calculation may include CPI estimates published by the Congressional Budget Office. It is highly likely that this CPI estimate will be revised down. We unable to determine the magnitude of the change in CBO's estimate of CPI and any change in CPI will impact income limits. As outlined in the terms and conditions, the Estimator is not intended to be used for any final financial decisions and should be used as one data point in many when attempting to understand the income and rent for a given area.

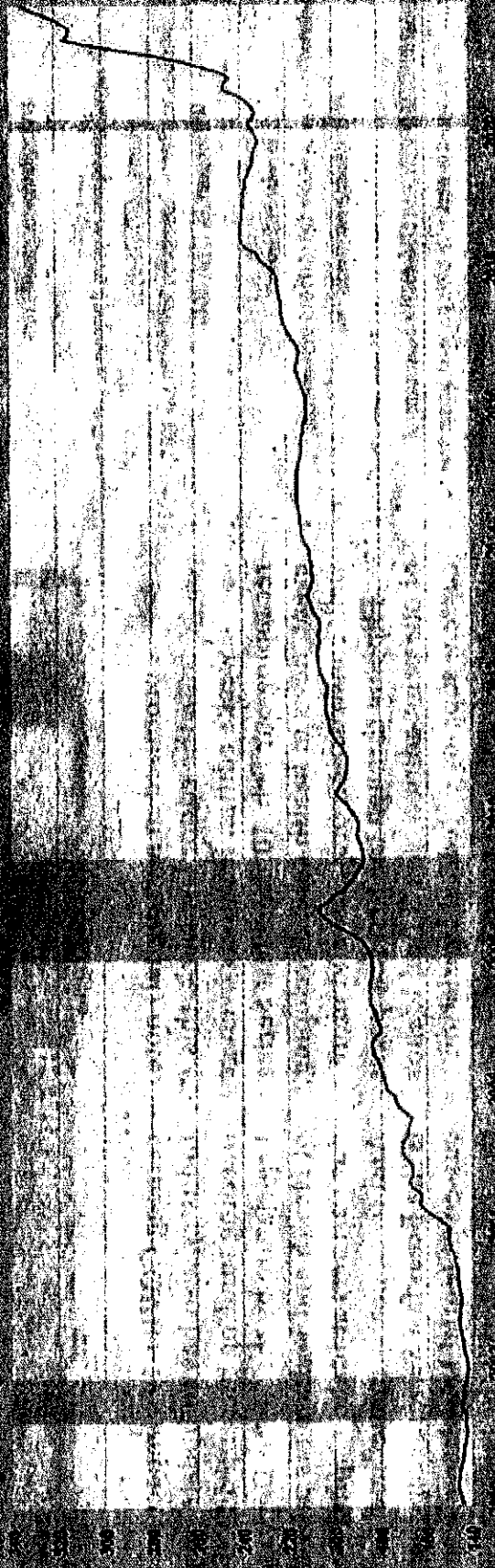


4-person AMGI 80,600

Average Increase (AMGI): 0.9%/year

Close Window

FRED



Source: U.S. Bureau of Labor Statistics. **Left: 2014 2018 2020**

The national construction materials price index for Dec. 1, 1999, to Dec. 1, 2021. GRAPH COURTESY OF THE FEDERAL RESERVE BANK OF ST. LOUIS

Construction costs increases in one graph

Sometimes it really is true that a picture can be worth a thousand words. In this case, that picture is a graph courtesy of the Federal Reserve Economic Data (FRED) hosted by the Federal Reserve Bank of St. Louis. The graph shows the national construction materials price index from Dec. 1, 1999, to Dec. 1, 2021. The index shows a sharp decline in early 2020, followed by a recovery to about 115 by late 2020. The data show that construction material prices have risen an aggregate 42% since February 2020, the month before the memorable pandemic recession.

DEMAND

Does not include the 335 lost renter households from 2010 to 2019. High growth is modeled because of the pandemic population boom Ketchum experienced, when between 2019 and 2020 our population grew by 25% (unlike the historic 1% annual growth).

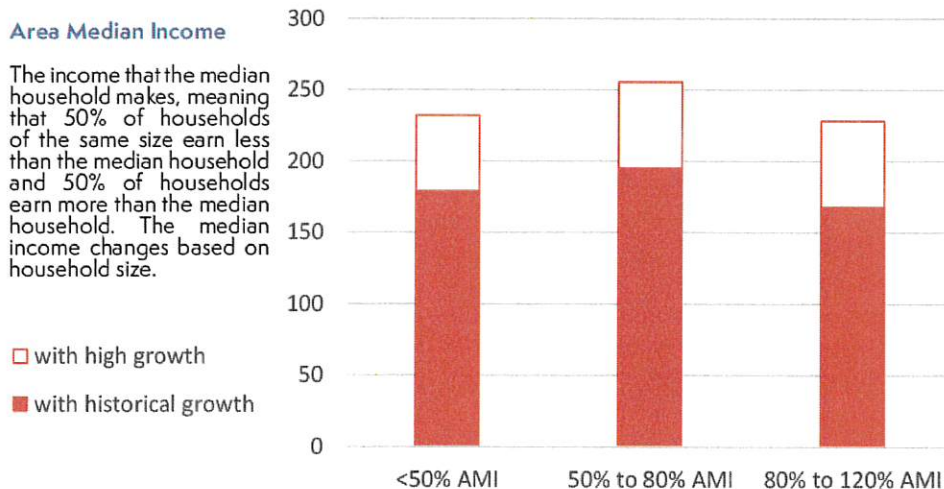
Total Projected Demand

	DESCRIPTION	HISTORIC GROWTH (1% per year)	HIGH GROWTH (3% average)
New Households	New households based on projected population growth by 2030	+224	+546
Current Households	Households in need of stabilization, at risk of displacement, such as: <ul style="list-style-type: none"> • cost burdened • people experiencing homelessness • substandard housing • overcrowding 	436	436
TOTAL UNITS	Total projected units needed by 2030: <ul style="list-style-type: none"> • Stabilizing households in their current unit • Transitioning vacant/seasonal/STR to owner- or LTR-occupied • New construction 	660	982
Units per Year		66 annually	98 annually

Projected new, converted, or preserved homes needed in 10 years, by income level

Area Median Income

The income that the median household makes, meaning that 50% of households of the same size earn less than the median household and 50% of households earn more than the median household. The median income changes based on household size.



HOUSING CRISIS IMPACTS

1. Vulnerable populations: Housing instability is creating financial, social and emotional challenges for residents across the valley. The National Association for Mental Illness, Wood River Valley explained what they are hearing from their clients: "Fear of the unknown, stress of abandoning other people who they might be leaving behind if they move and confusion about what the

relocation may look like.” In addition to increasing the likelihood of depression and suicide, displacement and housing instability also has physical impacts: It disrupts childhood development and immune system responses, and increases likelihood of hospitalization.

Stress resulting from housing instability is compounded by nonprofit and social service networks that can be difficult to navigate, especially for those in crisis. Respondents indicated that they, or their clients, were often shuffled from one agency to the next in an attempt to access resources. Often these clients would complete a process only to find out that they did not meet the eligibility criteria – and indeed, eligibility criteria may even specifically screen out some of the most vulnerable community members.

2. Business viability: Business viability and access to a stable workforce was a common idea shared when over 30 interviewees were asked to identify a “key indicator” for the housing environment. A few local business owners noted that they have had to cut hours/reduce days or completely close....The employees that they do have are exhausted.
3. Community character: Sentiment from a variety of interviewees is the sense that Ketchum is losing its identity as the housing market becomes challenging and people move away. Many respondents felt that the pursuit of accessible community housing represents more than a roof over community members’ heads – it’s a quest to maintain the “soul” of the community.

The housing crisis is also affecting the community’s ability to withstand stress: It is damaging social networks and supports and is displacing vital workers.

CARISSA CONNELLY | CITY OF KETCHUM

Housing Strategist

P.O. Box 2315 | 191 Fifth St. W. | Ketchum, ID 83340

o: (208) 727-5088 | f: 208.726.7812

cconnelly@ketchumidaho.org | www.ketchumidaho.org