

9% lihtc application narrative



Project Name: Sanderson Apartments
Mental Health Center of Denver

Project Address: 1601 S. Federal Boulevard
Denver, CO 80219

Project Summary:

The Mental Health Center of Denver (MHCD) is a non-profit community health organization that has been providing mental health services and special needs housing since 1989. MHCD is pleased to present a funding application for the construction of Sanderson Apartments, a 60-unit multifamily apartment complex in Southeast Denver. This project will provide Permanent Supportive Housing (PSH) to the City of Denver’s highest priority and most vulnerable homeless individuals, those who are the heaviest users of Denver’s public safety net system. Commonly referred to as the “Front End Users,” these individuals are repeat offenders who—as a result of their homelessness and mental health—frequently commit low-level offenses and rely heavily on local services such as the City’s court system, detox facilities, and emergency rooms. Each Front End User costs the City, on average, \$38,000 per year. This project allows the City to move away from costly remedial programs to proven preventative solutions.

In collaboration with the Governor’s Office, the City and County of Denver, Enterprise Community Partners (Enterprise), the Corporation for Supportive Housing (CSH), and the Colorado Coalition for the Homeless (CCH), MHCD is establishing Colorado’s first social impact bond (SIB) program, a pay-for-performance model designed to yield public sector savings associated with the cost of addressing homelessness. Known as the “Housing to Health SIB Initiative,” this program will close the gap in services funding needed to provide the appropriate level of services for the chronically homeless individuals residing at Sanderson Apartments. This prevention-focused reallocation of public funds will be used to fund an Assertive Community Treatment (ACT) team, a model that ensures participants have access to the high-intensity services that have been shown to improve recovery, reduce reliance on social services, and end homelessness. MHCD is eager to expand its portfolio of special needs housing to include 60

PSH units targeted to the Front End User group of homeless individuals. As one of two projects selected to pilot the Housing to Health SIB Initiative, MHCD will be able to leverage its strengths as the leading mental health service provider in Colorado and provide best practices for future PSH developments throughout the Denver Metro region and the State.

Project Strengths:

Sanderson Apartments is a **City of Denver high priority project**. Not only is the project in line with the Denver’s Road Home’s efforts to end homelessness within the City, but this project also represents an opportunity to reposition the community’s financial resources to fund proven, outcome focused solutions via the SIB Initiative. As the state’s largest and preeminent provider of mental health services, MHCD is a **strong sponsor** and has the organizational capacity and track record of providing housing and services to the indigent. With no competing PSH projects in the area, the desirable **location** ensures residents and staff will have ample access to shopping, services, recreation, transit, and employment opportunities. Lastly, Sanderson Apartments **trauma informed care approach to design** sets a new standard for PSH developments.

Project Weaknesses:

No significant project weaknesses have been identified. In the unlikelyhood that the project loses its project-based voucher operating support or the demand for homeless housing declines, the units would require minor upgrades (converting cook tops to standard ranges) in order to compete with standard LIHTC properties.

Construction Type:

Sanderson Apartments is planned as a three story C-shaped residential structure with stucco and painted cement board exterior with wood and metal accents, defined by both storefront and residential windows. The building is approximately 50,000 finished square feet and will face both Federal Blvd. and W. Iowa Ave. Because this is a residential building, the main lobby is accessed directly from the parking area. A secondary access point enters from Federal Blvd. into the main lobby in order to provide convenient public transportation (bus stop) access for residents.

Population Served:

Every unit within Sanderson Apartments will be targeted to homeless persons who according to HUD, are: sleeping in places not meant for human habitation, such as cars, parks, sidewalks, or

abandoned or condemned buildings; sleeping in an emergency shelter or safe haven; or living in transitional housing. More specifically, the project will be targeting Denver's "Front End User" homeless population. Despite the challenges that more serious-level offenders pose for the justice system, the Front End User population is equally taxing and poses considerable problems for a range of county level services. In addition to the challenges they create and significant resources they utilize from a criminal justice perspective, they also create challenges and consume excessive resources from other related agencies including mental health providers, hospital emergency rooms, addictions services, and county public health agencies. While system involvement issues of this group of offenders are legal in nature, they often stem from other health-related issues which are exacerbated by their homelessness.

Bedroom Mix:

The property contains sixty (60) one-bedroom apartment units averaging 450 square feet in size.

Location:

The site is at 1601 South Federal Boulevard in the Mar Lee neighborhood of southwest Denver, an established urban area. The site is 5.3 miles southwest of downtown Denver and will serve the metro population. The site is bordered to the east by Federal Blvd., a busy four lane state highway, to the north by Iowa Ave., a quieter residential street, to the west by residential homes, and to the south by Sanderson Gulch open space and bike trail.

The Mar Lee neighborhood includes the lands that are north of Jewell Ave., south of Mississippi Ave., east of Sheridan Blvd. and west of Federal Blvd. This area is a low- to moderate- income, mixed residential and commercial community that was developed during the 1960s and 1970s. The site is within Census Tract 46.02, which is a 2015 Qualified Census Tract.

The immediate neighborhood includes residential and commercial land uses. Most nearby single-family homes are ranch structures that were built in the 1940s and 1950s, and are in average condition. Most homes contain between 800 and 1,600 square feet of living space, one to four bedrooms, one to two baths, and sell for \$150,000 to \$225,000. The nearest multifamily project is 50 feet to the south. The nearby apartment buildings are generally well-maintained, Class C, 1970s products with rents of \$875 to \$1,175 per month. The neighborhood commercial facilities are generally well-maintained "mom and pop", national and small independent stores open since the 1980s. The closest convenience store is 7-Eleven, which is open 24 hours and located at 1499 S. Federal Blvd., 0.2 miles to the north of the subject. At the intersection of S

Federal Blvd. and W. Florida Ave., 0.2 miles north of the site, is a community shopping center that covers approximately 80,000 square feet. The center includes national, regional and local retailers. Walgreens is its primary tenant. Other tenants include 7-Eleven, Safeco Insurance and local restaurants. Save-A-Lot, a nearby national chain grocery store with approximately 20,000 square feet of space, is in a neighborhood strip mall at 1951 S. Federal Blvd., which is 0.2 miles south of the site. The store has a positive impact on the site because it provides grocery shopping within walking distance.

The site is also within 0.5 miles of a bus stop, library, child care center, park and recreation center. The closest major employment centers include Walmart, Walgreens and various restaurants, which are within walking distance of the site. Regional Transportation District (RTD) provides bus service in the market area. The nearest bus stop is at the intersection of S. Federal Blvd. and W. Florida Ave., 0.2 miles south from the site. Residents can ride buses from this location to destinations throughout the Denver MSA. The buses run every 15 minutes, from 4:30 am to 9:45 pm, seven days a week.

Amenities:

Unit and property amenities have been thoughtfully selected to respond first to resident needs through an understanding of trauma informed care best practices, and second, to property management needs. The longevity, durability, safety, cost effectiveness, and aesthetics of each material choice were carefully considered. The individual units will be fully furnished with a bed, sofa, television, and dinette area. Built-in shelving will be provided in the closets and nooks to provide convenient storage and opportunities for personalization. The basic kitchen layout provides a two-burner electric cook-top, microwave, and sink with a disposal. Dishwashers and ovens were eliminated because, in MHCD's experience, they receive little use by formerly homeless residents. As a result, first cost and ongoing maintenance costs were reduced.

Without exception, every chronically homeless individual is a trauma survivor. Top of mind when conceptualizing the building, were the principles of trauma informed care, an organizational structure and treatment framework that involves understanding, recognizing, and responding to the effects of all types of trauma. To that end, **the building's design and amenities emphasize physical, psychological, and emotional safety for both residents and staff, thereby helping survivors rebuild a sense of control and empowerment.** All spaces have an abundance of natural light, facilitating health and well-being. Central to the project is a 3-

story light well that brings natural light into the building's primary core—on all three levels—and connects residents throughout the building. The lobby's open stairwell provides for additional visual and physical connectivity between the common areas and the residential spaces.

The 450 square foot individual dwelling units are compact and efficient, intentionally designed to create a cozy space that serves the basic needs of individuals who have been living on the streets. Small unit sizes allows for wider hallways which incorporate private nooks and group spaces for resident/staff engagement and community activities. In an effort to combat isolation, the hallways mimic the feel of interior "streets," a place of gathering, communication, counseling and socialization. On the first floor, private counseling offices, a community room, group dining room/catering kitchen, library, and exercise room provide additional areas for formal and informal interaction. Complementing the indoor spaces is a large west-facing exterior courtyard—the building's backyard—that provides gardens, contemplative seating areas, a small basketball court, and patio space adjacent to the group dining room. On the building's east side, a protected courtyard is open to the sky, but enveloped by the building, providing a quiet and safe outdoor place of respite.

Services:

Residents of Sanderson Apartments will have access to a robust package of services delivered by MHCD staff. MHCD anticipates that the majority of residents will need the most intensive services early in their residency, with some requiring high-intensity services for the duration and some requiring less as time progresses. Service plans will be individualized and adaptable, as resident needs change over time. Because the Front End User group requires the highest level of support, MHCD is assembling an Assertive Community Treatment (ACT) Team. ACT is the fundamental method for delivering high intensity case management services. A multi-disciplinary ACT team includes: clinical case managers, a psychiatrist, a nurse, a clinical supervisor and therapists. The ACT model of intensive intervention includes: outreach and engagement through strengths-based case management, medication evaluation and monitoring, benefits acquisition and management, group therapy, and referrals to primary care providers for integrated medical treatment. For the target resident group, mental illness is almost always the root cause of legal system involvement, and the ACT approach has been effective in reducing recidivism and keeping people housed.

Additional services will be provided by residential counselors who have been trained to observe changes in behavior and to link residents with individualized services. Such linkage can range from calling a clinician, to expressing concern, to calling for emergency support. The primary responsibility of residential counselors is to implement the clinical treatment plan put in place by the ACT Case Manager. The treatment plan is reviewed and updated by the ACT Team on an on-going basis. Residential counselors are available during scheduled office hours to receive residents and to address resident needs and concerns and also conduct scheduled visits to the resident apartments to check on maintenance needs, food status, and general upkeep. Residential counselors also engage the residents in a monthly communal activity. Residents are given an opportunity to engage in services or explore new ones, such as more intensive substance abuse treatment.

Energy Efficiencies:

MHCD's Board of Directors has adopted an organizational initiative to LEED certify all of its properties. To that end, MHCD will request a waiver from the Enterprise Green Communities (EGC) requirement with the goal of seeking LEED for Homes Platinum level certification. The LEED for Homes rating system was launched in 2008 with the intention of promoting the adoption of more sustainable practices by the mainstream home building and multifamily construction industries. The formal certification process for LEED for Homes is far more rigorous than the CHFA-required EGC self-certification process. The additional technical effort needed and financial investment required for LEED for Homes Platinum level certification (\$27,000) is incremental, less than one percent of construction costs, and a worthy investment in a more sustainable outcome.

Both LEED for Homes and EGC cover roughly the same categories although each program has some mandatory requirements (prerequisites) and optional points that do not overlap. Both standards require a pre-construction Green Development Plan. Both programs will accept the LEED for Homes EA P1 Alternative pathway as means for satisfying the energy efficiency requirements for the project. Both programs rely on third party programs (i.e. ENERGY STAR) or performance targets to set energy efficiency requirements.

Unlike EGC, which does not require formal certification, LEED for Homes requires formal certification from the United States Green Building Council (USGBC) in order to receive the LEED for Homes designation. Both LEED for Homes and the EGC standard produce truly green buildings, but the formal certification and multiple layers of verification of the LEED for Homes

program ensure the project will meet the strict sustainability guidelines set forth by the USGBC. LEED for Homes is a quality standard backed up with an extensive, 300 page technical manual that was developed with input from industry experts on all facets of residential home design and construction. With fewer mandatory requirements and more available points than the EGC system, LEED for Homes gives a project more flexibility in reaching the program requirements, thereby allowing the design team and owner to implement sustainability measures that are a better fit to the project's design goals, location, and end users.

Green building features planned for incorporation include the following: R-38 attic insulation, R-23 wall insulation, R-10 foundation insulation, low flow fixtures, Energy Star windows, high efficiency central heating and water heating, mechanical ventilation of all units, built-in fluorescent or LED lighting, occupancy sensor lighting control in common areas, solar photovoltaic ready, construction waste recycling, regional and recycled materials (where possible), Energy Star appliances, hard surface flooring, parking ratio 50% below zoning requirements, bike storage, community gardens, and daylighting.

Type of Financing and Subsidies:

The financing for the Sanderson Apartments has been structured according to best practices for permanent supportive housing projects. The project's construction will be funded with 9% LIHTC equity bridged by a construction loan, a Colorado Housing Investment Fund (CHIF) cash flow loan from the Colorado Division of Housing (CDOH), and HOME funds from CDOH and the City of Denver's Office of Economic Development (OED). The project will not utilize must-pay (hard) long-term debt.

Operational expenses will be supported by sixty project-based vouchers. Half of these vouchers have already been awarded by the Denver Housing Authority. Due to the characteristics of the targeted housing population, personnel expenses include safety officers, who will augment the on-site residential counselors and allow for continuous staff presence throughout evenings and weekends. The safety officers will ensure the security of the building's residents by restricting access to residents, staff, and approved visitors.

The supportive services staffing plan is comprised of residential counselors who will office on-site, as well as an ACT Team who will be working with residents both on and off site. Approximately 75 percent of these services are Medicaid eligible and will be billed accordingly. The remaining 25 percent will be covered by the SIB Initiative. Should the SIB Initiative be

delayed and anticipated investment is deferred beyond the expected opening of the building, MHCD will work with the SIB Team (City and County of Denver, Enterprise and CSH) to back fill the necessary funding with a combination of community and MHCD resources, or, will serve a subset of the homeless population whose service needs are less intensive (and therefore, less costly to the project) than the Front End Users.

In addition, the narrative should address the following:

1. **Identify which guiding principles in Section 2 of the Qualified Allocation Plan (QAP) the project meets and why it meets them:**
 - a. **To support rental housing projects serving the lowest income tenants for the longest period of time:** The project serves homeless individuals who have no stated income and who are reliant on the community's safety net services for survival. These are some of the most vulnerable members of the Denver metro area. The project will be committed to serve this population for 40 years.
 - b. **To provide for distribution of housing credits across the state, including larger urban areas, smaller cities and towns, rural, and tribal areas:** This credit request is to support the creation of housing for severely under-housed Denver metro households. It is appropriate to allocate a credit award to support the creation of this housing in Denver, considering that the majority of these individuals live in Denver metro as compared to the rest of the state.
 - c. **To provide opportunities to a variety of qualified sponsors of affordable housing, both for-profit and non-profit:** MHCD is a highly qualified non-profit sponsor. This is MHCD's first LIHTC request and, if awarded, will complement the management and services MHCD currently provides to the over 300 residents of their sixteen assisted living facilities and seven apartment buildings currently housing low income individuals with mental illness.
 - d. **To distribute housing credits to assist a diversity of populations in need of affordable housing, including families, senior citizens, homeless persons, and persons in need of supportive housing:** This is a permanently supportive housing project that will house those with the most critical housing needs and

who are most in need of permanent supportive housing. We expect that there will be some residents who are also seniors, disabled, and/or have other special needs that can be accommodated by living in this property.

- e. **To provide opportunities for affordable housing within a half-mile walk distance of public transportation such as bus, rail, and light rail:** Residents will be able to access regular public transportation. Three RTD bus routes run at regular intervals stopping at bus stops within 0.5 miles of the site that connect to the rest of the Denver metro area as well as the Evans Avenue light rail station, 2.2 miles southeast from the site. One-way, the fare is \$2.25 for all riders and \$1.10 for seniors. A community bike path is adjacent to the property.
 - f. **To support new construction of affordable rental housing projects as well as acquisition and/or rehabilitation of existing affordable housing projects, particularly those with an urgent and/or critical need for rehabilitation or at risk of converting to market rate housing:** This is a new construction project.
 - g. **To reserve only the amount of credit that CHFA determines to be necessary for the financial feasibility of a project and its viability as a qualified low income housing project throughout the credit period section 2 Guiding Principles and Criteria for Approval:** MHCD is requesting the maximum allowable credit amount in order to finance the construction of this project with no permanent hard debt.
2. **Identify which housing priority in Section 2 of the QAP the project qualifies for:** This project meets the Projects Serving Homeless Persons and Projects Serving Persons with Special Needs (as defined in Section 5.B 5) housing priorities listed in the QAP. All of the units will be targeted to homeless individuals and we anticipate that many residents will have special needs.
3. **Describe how the project meets the criteria for approval in Section 2 of the QAP:**
- a. **Market conditions:** As described above, the City of Denver has identified 300 Front End User individuals who are targeted for housing at Sanderson Apartments. The primary market for Sanderson Apartments includes these Front

End User households. MHCD will be working closely with the City of Denver to connect with these households and offer them housing at Sanderson Apartments. Processes are in place, including the Recover Court pilot program and identification of these individuals at City facilities to ensure rapid lease up. Secondly, the market study looked at market conditions of homeless households throughout the City and County of Denver. The market study used data from the Denver Point-in-Time homelessness survey to complete its analysis. Although on a strictly numbers basis, the capture rate for these 60 units when considering the number of available homeless households is 25.1%, the market study indicates that this numbers is *“overstated and easily attainable, considering the high occupancy rates and waitlists at surveyed permanent supportive housing projects, as well as the experience of a Class B permanent supportive housing project that opened in 2014 and completed lease-up in three weeks.”* The market study indicates that the project will lease up at a rate of 30 units per month and achieve at least a 95% occupancy rate. In general, the market study indicated that the project would also perform well as a non-subsidized LIHTC property, showing a high demand for rental housing and reasonable capture rate across all proposed AMI levels.

- b. **Readiness-to-proceed:** MHCD assumed site control in February 2015 and owns the property outright. Soils, groundwater and related environmental testing revealed no known hazards that would impact construction. A preliminary application meeting with the City Planning Department has confirmed that the site is properly zoned for the proposed multifamily use. The design team will resume entitlements in June 2015, following initiation of community outreach, and anticipates completing zoning and planning approvals by September 2015. Assuming an allocation of LIHTCs, the project is on target to secure remaining funding commitments and execute a partnership closing by December 2015, initiating construction immediately thereafter. Assuming a fourteen-month construction schedule, MHCD will be ready to begin lease up in March 2017.
- c. **Overall financial feasibility and viability:** Assuming a LIHTC award, this project will be competitive for the HOME funds for which it is applying because providing permanent supportive housing for the homeless is a key priority of both the City and the State. The project is also requesting a long term \$500,000 low-interest rate CHIF loan based on its commitment to serve the qualifying homeless population. The CHIF loan is anticipated to be paid off from available cash flow by year 8 of the LIHTC compliance period.

The absence of permanent hard debt solidly positions the project to support ongoing operations for the duration of the LIHTC compliance period. Because the residents will likely have little or no income available for rental payments, ongoing operating subsidy in the form of project based vouchers are also being secured. The project received preliminary approval for thirty project-based vouchers from the Denver Housing Authority (DHA). MHCD is also applying to CDOH for the remaining thirty project-based vouchers during this funding round. Project-based vouchers will ensure that full rental income is received for operations.

As noted above, approximately 75 percent of the supportive services are Medicaid eligible and will be billed accordingly. The remaining 25 percent will be covered by the SIB Initiative. Should the SIB Initiative be delayed and anticipated investment is deferred beyond the expected opening of the building, MHCD will work with the SIB Team (City and County of Denver, Enterprise and CSH) to back fill the necessary funding with a combination of community and MHCD resources, or, will serve a subset of the homeless population whose service needs are less intensive (and therefore, less costly to the project) than that of the Front End Users.

- d. **Experience and track record of the development and management team:** MHCD and its subsidiary, Sabin Group, Inc. have been providing housing and supportive services for 25 years. They have a proven track record of successfully managing housing with services for individuals with serious mental illness. In comparison with other housing providers, MHCD achieves higher retention and lower eviction rates with better resident success. They actively monitor and support residents, providing services and/or making emergency referrals to the hospital or mobile crisis services as appropriate. MHCD also works with the resident's natural support systems of family and friends and reaches out to this network as needed. Such early and on-going intervention is crucial to keeping the resident stable in housing and making progress in recovery.

MHCD and the Sabin Group operate 16 assisted living facilities and seven apartment buildings housing approximately 310 residents. They participate with DHA and the CDOH to help approximately 600 households find housing that meets their needs and expectations; their offices manage 525 Housing Choice Section 8 vouchers from DHA and CDOH, providing \$3.23 million in annual housing subsidy to these households.

MHCD and the Sabin Group provide a strong link between stable housing and effective supportive services that enables consumers to live productive lives and be less dependent on emergency and other public services merely to survive. Their housing department has successfully participated in the Supportive Housing and Homeless Program (SHHP) incentive program for the past four years and has met the established qualifying criteria generating approximately \$30,000 in annual revenue and securing more than \$1.9 million in HUD funding for consumers. A thorough quality control program ensures timelines are met and all parties are in compliance with various federal regulations.

- e. **Cost reasonableness:** Construction costs for the project, which are based on a schematic design cost estimate, are approximately \$173,000 per unit. Most PSH projects, including Sanderson Apartments, have an above average ratio of common spaces to residential spaces and therefore higher per unit costs. The cost per square foot is slightly over \$208 because the units are designed for single occupancy and economies of scale (bathrooms, kitchens) are not realized as they are in buildings catering to families. Overall, the cost to construct this project is in line with projects of comparable size, quality, and demographic served.
 - f. **Proximity to existing tax credit developments:** The market study indicates there are 14 permanent supportive housing projects with a total of 862 units in Denver, using data provided by the Metropolitan Denver Homeless Initiative (MDHI). The majority of these properties are located in downtown Denver and surrounding neighborhoods, with a few in east and west Denver. There are no permanent supportive housing properties in south Denver. According to the market study, there are 13 income-restricted properties in the PMA.
 - g. **Site suitability:** This site is suitable for the project based on its appropriate zoning, proximity to community-based services and amenities within walking and transit distance, good transit service, and ability to accommodate a building designed for resident wellness.
4. **Provide the following information as applicable:**
- a. **Justification for waiver of any underwriting criteria (minimum operating reserve, minimum PUPA or high PUPA, first year debt coverage ratio below 1.15 or above 1.30, minimum replacement reserve, vacancy rate below CHFA's**

minimum): This project does not require a waiver of any CHFA underwriting criteria.

- b. **Justification of the financial need for CHFA’s DDA credit up to 130 percent of qualified basis:** Not applicable.

5. **Address any issues raised by the market analyst in the market study submitted with your application:**

- **Further from downtown/less centralized with less access to shopping and services:** As described above, the project location serves an area of Denver where there are currently no permanent supportive housing properties. The location offers shopping, services, transit, and community amenities within walking and transit distance. MHCD will be providing transit to residents, as needed, to ensure access to necessary services that cannot be adequately reached by public transit.
- **Smaller units may impact rentability if the project is later converted to non-supportive housing:** Given the outsized demand relative to supply (LIHTC properties in the PMA have 1% vacancy rate and maintain large waitlists), we do not anticipate that smaller than average unit size will impact rentability. Moreover, the modern amenities far surpass what is currently available at competing LIHTC properties, providing Sanderson Apartments with an advantage.
- **Electric cook-tops are atypical for standard LIHTC rental properties and may impact rentability:** The market study indicates that electric cook-top stoves are “appropriate and typical” for homeless households. Given the steady demand for homeless housing and the low likelihood of the property converting to a standard LIHTC rental, MHCD does not anticipate any impact on rentability. However, should the property convert to standard LIHTC housing, we expect that a phased installation of traditional cook-top/ovens would be warranted as replacement reserves become available.

6. **Address any issues raised in the environmental report(s) submitted with your application and describe how these issues will be or have been mitigated:** There are no Recognized Environmental Conditions (REC) identified in the Phase I Environmental Report.

7. **In your own words describe the outreach that you have conducted within the proposed community and demonstrate local support for the project (including financial support):** In coordination with the Denver Mayor's Office, MHCD has created a community outreach plan outlining their intentions to initiate and maintain open communications and understanding with key project stakeholders, particularly the surrounding neighbors. Based on a timeline developed in concert with the Mayor's Office, the plan will be rolled out at the beginning of May 2015. One-on-one meetings, as well as meetings with local business owners, Council members, and neighborhood associations are anticipated. MHCD's communications team will keep stakeholders abreast of the project's development through an online newsletter and website updates. Based on the level of community interest and participation, a Good Neighbor Agreement may be created between MHCD and the neighborhood.