

CITY COUNCIL COMMUNICATION



MEETING DATE: January 9, 2024

ITEM NUMBER: 12.{{item.number}}

SECOND READING: January 23, 2024

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TYPE OF ITEM: General Business

PRESENTED BY:

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SUBJECT/AGENDA TITLE:

A Bill For An Administrative Ordinance Approving The Purchase And Sale And Development Agreement Conveying 200 Bountiful Avenue And 905 Harvest Moon Drive To Vertikal, LLC For An Affordable-Attainable Housing Development

EXECUTIVE SUMMARY:

The City was approached by Vertikal, LLC (Developer) about a pilot project to determine how to effectively finance, build, and market an integrated deed-restricted low- and middle-income homeownership development in Longmont. Diamond G Concrete Company was willing to contribute land at below market rate to accomplish the mutual goal of providing homeownership opportunities for households to build generational wealth and put down roots in Longmont. After discussions with both parties, the sites located at 200 Bountiful Avenue and 905 Harvest Moon Drive were ideal for this proposed community. Both parcels have been conveyed from Diamond G to the City. In conjunction with this project, the Developer is seeking conveyance of both parcels and financial incentives from the City to offset costs of construction for below-market housing.

Attached are an administrative ordinance, a Purchase and Sale and Development Agreement between the City and the Developer that outlines the development expectations and financial conditions and incentives relative to both parties, and the developer covenants, conditions, and restrictions.

Finally, under the City's Charter 13.2, an administrative ordinance is required for the sale or conveyance of city property and must be approved by a 2/3 vote of the entire council (by at least 5 of the 7 council members).

COUNCIL OPTIONS:

1. Approve the execution of the Purchase and Sale and Development Agreement.
2. Do not approve the Purchase and Sale and Development Agreement.

RECOMMENDED OPTIONS:

Approve the Purchase and Sale Agreement.

FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:

A total of \$4,971,787 in fee waivers would result in unearned revenue compared to the revenue that would be received if this land was similarly developed for market rate housing. The Affordable Housing Fund and Attainable Housing Funds would contribute a total investment of \$6,064,000 to the project over a period of years.

BACKGROUND AND ISSUE ANALYSIS:

In December of 2020, the City Council approved a three party Public Private Partnership Agreement between the City of Longmont, Costco Wholesale Corporation and the property owner, Diamond G Concrete Company, for the planning, design, permitting and construction of a Costco store in the eastern area of Harvest Junction within the Irwin-Thomas annexation. In accordance with that agreement, in February 2022 the City purchased a 9.12-acre parcel of land located at 200 Bountiful Avenue at below market rate for the use of affordable housing.

Later in 2022, Diamond G Concrete Company and Vertikal, LLC proposed an unsolicited offer to partner with the City to build below-market housing on the City's newly purchased land and the 7.28-acre parcel located at 905 Harvest Moon Drive that Diamond G owned just to the east of the City land. Vertikal is a design-build developer based in Louisville, Colorado with a residential and hospitality portfolio in the local Colorado market and national market. Vertikal has been working with the City to negotiate an open-book deal, meaning the City has had full visibility into the proforma's assumptions, profit margins, etc.

In December 2023, the City purchased the 7.28-acre parcel from Diamond G at below market rate. Both properties were wholly paid for through the City's allocation of American Rescue Plan Act (ARPA) funding and a grant through the State of Colorado Department of Local Affairs (DOLA) Innovative Housing Incentive (IHOI) Program; a total of \$4,650,959.55 in leveraged funding.

The intent for both parcels is to develop a 16.4-acre, low- and middle-income for-sale neighborhood totaling approximately 185 units. Approximately 55 units will be permanently deed restricted as affordable to households earning below 80% of the area median income and approximately 130 units will be deed restricted as affordable to households earning below 120% of the area median income ranges. A mix of attached townhomes and detached single family homes are proposed, with an overall density of approximately 11.3 units per acre.

The exact sales price points are subject to change since the project will be developed in four phases over a period of no more than 15 years, although the timeline for delivery is anticipated to be shorter than that. It is anticipated that entitlement and permitting

approvals for the first phase should be complete and construction on infrastructure begin by the end of 2024. Sales prices will be limited to the maximums set annually by the Housing & Community Investment Division in effect at the time of building permit for each home, but may be lower than the maximums. For illustration purposes only, the proposed unit types, affordability levels, and 2023 sales price maximums currently in effect are shown below:

Affordability Level	Unit Type	Maximum Allowable Sales Price (2023)
Affordable – 80% AMI	2 Bedroom Attached	\$321,362
Affordable – 80% AMI	3 Bedroom Attached	\$358,292
Attainable – 120% AMI	2 Bedroom Attached	\$427,851
Attainable – 120% AMI	3 Bedroom Attached	\$461,358
Attainable – 120% AMI	2 Bedroom Detached	\$555,300
Attainable – 120% AMI	3 Bedroom Detached	\$601,140

City Partnership & Investment

The City has already committed leveraged funding to purchasing the parcels at significantly below-market rates. This development agreement includes conveying that land at no cost to the developer.

The project as designed qualifies for a 100% fee waiver for the 55 affordable units. The value of these fee waivers is estimated at \$1,326,680 in unearned revenue (compared to the revenue that would be received if this land was similarly developed for market rate housing).

The developer is requesting 100% fee waiver on the 130 attainable units in accordance with the requirements of the Attainable Housing Fee Waiver Program. The value of these fee waivers is estimated at \$3,645,107 in unearned revenue (compared to the revenue that would be received if this land was similarly developed for market rate housing). Analysis supporting this request is provided in the Attainable Fee Waiver section below.

There is an additional \$6,064,000.00 gap to make the financials work on this project while meeting the underwriting requirements of the equity partners and lenders. The City proposes to fund that gap with a combination of Affordable Housing Fund and Attainable Housing Fund resources over a number of years. The City will also seek out external funding sources and if successful, will lower the amount committed from the Affordable and Attainable Housing Funds. The first installment would be a \$2,500,000 payment to fund the phase 1 infrastructure, anticipated to be needed by the end of 2024. Council will consider the funding

plan and schedule during its annual approval of action plans for the Affordable and Attainable Funds, anticipated to be considered in June 2024.

Attainable Fee Waiver

The project will meet the minimum thresholds required to receive a fee waiver:

- 1) For-sale product only
- 2) Developer will restrict sales prices in accordance with the City's maximums
- 3) Buyers will be income qualified
- 4) Developer will enter into an agreement with the City of Longmont
- 5) Developer is participating in an open-book partnership
- 6) The program's required deed restrictions for a large-investment project will be followed:
 - a. Rolling 10-year term for 30 years or 3 sales, whichever comes first
 - b. If a homeowner keeps the home for 10 years, they can sell at market rate
 - c. If a homeowner sells before the 10 years, the sale is restricted to the maximum sales prices and the deed restriction restarts
- 7) Units will be owner-occupied for the life of the deed restriction

The project scores 75 points on the fee waiver scale:

Criteria	Maximum Possible Points	Scored Points	Explanation
Units Sold at 100% AMI	30	10	5 units are proposed to be sold below 100% AMI. It should be noted that a much greater number are proposed within this price range in the current proforma, but flexibility needed to be built in to manage risk. The intention to sell more at this level has been reflected in the scoring.
Units Sold at 110% AMI	20	15	Of the 20 total units proposed to be sold below 110% AMI, 75% of them are proposed at 110% AMI, therefore 75% of the possible points are awarded.
Exceptional Benefit to the Community	15	15	The project will be constructed as 100% electric; the site plan proposes complete streets, walkable neighborhoods, indistinguishable aesthetic difference between affordable units and the surrounding neighborhood; the project is a pilot to determine how to create a replicable model of

			fully below-market housing in a unique, integrated neighborhood.
Employer Units	15	15	In proportion to City investment, 24 units across varying affordability levels will have a preference for sale to an income-qualifying City employee.
Longmont Employment Units	15	15	100% of the remaining units (after City preference) will have a preference for sale to income-qualifying employees that work in or are moving to Longmont (some exceptions to meet Fair Housing regulations).
Units sold at 120% AMI	5	5	A total of 68 units will be sold below 120% AMI.
TOTAL	100	75	

Because this project provides a fully affordable-attainable project where at least 25% of the units are permanently deed-restricted as affordable, the project qualifies under code to propose an alternative manner in which the development will satisfy its obligations under the program. This project proposes to add a buyout option for the eventual owners of the attainable units. Under this option, a homeowner that maintains ownership for seven years may sell at market rate, but pay back the City at closing in accordance with the following scale:

- 1) During 8th year of ownership: 6% of market sales price
- 2) During 9th year of ownership: 5% of market sales price
- 3) During 10th year of ownership: 4% of market sales price

Alignment with City Goals

Overall, this project implements goals of Envision Longmont, the City's comprehensive plan by:

- Envision Goal 1.2E – Anticipating and planning for the changing needs of the community, and diversify the City's housing stock by:
 - Encouraging the development of a range of housing types, sizes, prices, and densities;
 - Actively working with the private sector to promote and potentially incent the construction of housing types documented to be in short supply; and
 - Supporting the integration of a more diverse array of attached and multifamily housing types in Mixed Residential neighborhoods and in defined centers and corridors.
- Envision Goal 3.1 – Ensuring there are affordable and accessible housing options that meet the needs of residents of all ages, abilities, and income levels.



Additionally, this project would supply 60 new units that meet Prop 123's definition of affordable for homeownership, which would help the City meet its commitment to be eligible for Prop 123 funding. The City has committed to generate 304 new affordable units by December 31, 2026. While the timeline for delivering all 60 units may not match up exactly with the first 3-year compliance period, this project would deliver 20% of the City's commitment.

ATTACHMENTS:

1. Ordinance
2. Purchase and Sale and Development Agreement