



MEMORANDUM

P.O. Box 4100 ◆ FRISCO, COLORADO 80443

To: **MAYOR AND TOWN COUNCIL**

FROM: **DON REIMER, COMMUNITY DEVELOPMENT DIRECTOR**

RE: **602 GALENA STREET WORKFORCE HOUSING PROJECT**

DATE: **DECEMBER 14, 2021**

Summary and Background: In August 2021, Mayor Mortensen and County Commissioner Tamara Pogue convened a meeting including Town and County staff, and staff from the Colorado Division of Labor and Employment (CDLE), to discuss workforce housing in Frisco and Summit County, recently passed legislation which could facilitate development of housing projects, and property owned by the State in Frisco which could be used to develop housing. These conversations have continued over the past several months, to the point that more formalized agreements will be required for continued pursuit of this project.

At this point in time, the Town staff and County representatives have stated mutual interest in developing the property as a partnership, sharing equally in project costs. This work session update is intended to inform and update Town Council regarding the status of a potential project located at 602 Galena including likely development scenarios, estimated project costs, options for project financing, and upcoming steps in the development timeline.

Analysis: In the 2021 legislative session, the Colorado State legislature passed a number of pieces of legislation designed to facilitate development of affordable and workforce housing in Colorado. One of these, HB21-274, encourages sale of excess or under-utilized State properties to local jurisdictions for beneficial community uses, including affordable housing development.

In Frisco, the State owns a property located at 602 Galena. Since 1984, this 0.72-acre parcel has been utilized by CDLE as the home of the Colorado Workforce Center, and includes a 4,153 square foot building, which currently houses approximately 11 employees. CDLE staff indicated that the property could be available for redevelopment by the Town and County, and an appraisal and survey were conducted to establish the land value. CDLE staff indicated a preference to sell the property outright, with a possibility of entering into a lease arrangement to aid in project finances. In order to facilitate this project, CDLE would like assistance by the Town and County to find temporary office space for the Workforce Center employees, and would like to have permanent office space included in the new development on the property.

Potential Development Program: The property location in the eastern end of the downtown area, the gaps in housing availability as identified in the Housing Needs Assessment, and CDLE desires for the future use of the property have guided initial thoughts on what a development on this

property could be. Some of the development parameters that could be included in the project scope are discussed below.

602 Galena Street (Colorado Workforce Center)



- The property is zoned CC – Central Core, which allows for residential and non-residential uses, with residential density set at 16 dwelling units per acre. Using the parcel size of 0.723 acres, the base residential density is 11.57 units, which is rounded up to 12 units per Town Code. Because this parcel is between Galena Alley and Galena Street, Commercial uses are permitted but not required on this property.
- Based solely on the proportion of units to lot size for the 619 Granite (CDOT) project, (22 units on 0.58 acres), and with a similar unit mix of studio, one-, and two-bedroom units, this property could support 27 or 28 units.
- The Central Core zone district allows bonus residential density if units are deed restricted to be for sale or rent to households earning incomes of no more than 100% AMI. For example, if 8 units were deed restricted, an additional 8 market rate units could be allotted to the property, for a total of 28 units on the parcel (8 deed restricted and 20 market rate).
- Depending on development parameters and limitations, the number of units could be substantially increased if residential parking requirements were met at least partially in a structure under the units rather than by using surface parking.
- CDLE has indicated that as part of the development process, they would like to ensure office space availability for the current and future needs of the Colorado Workforce Center and for Vocational Rehabilitation. Based on initial estimates, CDLE

would require approximately 2,500 square feet of non-residential office and conference space.

- The main constraints related to residential development in the Central Core zone district are site planning constraints such as parking and snow storage, and development standards related to building design, including step backs, bulk plane, and roof and façade designs. Town Council has in the past discussed potential changes to the Town Unified Development Code, which could allow for a greater number of units on a property. If changes to the development Code were proposed, they could be applied broadly throughout several zone districts; applied more specifically to the Central Core zone district; or developed with the intent to balance housing goals with multiple community objectives such through an Affordable Housing Overlay.
- For preliminary programming and cost estimating purposes, a range of 28 – 36 apartment style residential units with an average size of 750 square feet, and 2,000 to 3,000 square feet of commercial space will be used.

Preliminary Project Development Costs: As this is a State owned property, specific appraisal requirements apply. CDLE arranged for an appraisal, which was completed in October 2021. The appraisal established the property value at \$3,000,000. Initial cost estimates based on recent projects are summarized below.

	Low	High
Land Cost	\$3,000,000	\$3,000,000
Residential units (28-36 units at \$400 - \$550 / sq ft)	\$8,400,000	\$14,850,000
Commercial Space (2,000 - 3,000 sf at \$400 - \$500 / sf)	\$800,000	\$1,500,000
Architectural / Engineering Design	\$400,000	\$600,000
Utilities (water, sewer, electric)	\$840,000	\$1,080,000
Total	\$13,440,000	\$21,030,000

Private Sector Developer: When utilizing a private sector developer, the cost of a project subsidy will need to be higher. The Town of Breckenridge has found that this can work on larger developments, where the extra expense can be spread out over the cost of the project (ex. Alta Verde, a 2-phase 280-unit development at the 60% AMI range, built with a LIHTC award from CHFA). On a smaller project (fewer than 60-80 units), this additional subsidy required per unit may not be the best use of taxpayer dollars. Additionally, by transferring the project to an external, private sector developer, the Town may lose flexibility in areas of AMI targets / rent setting, sustainable building options, and tenant restrictions (such as smoking, dogs, parking, etc.). A private developer will have investors to report to and decisions may be made that the Town finds undesirable; with the transfer of the project to a private party, the Town loses some of the role to make decisions on behalf of the workforce that Council desires to serve.

Financing Options: Because the land appraisal value was a higher than anticipated by staff, it initially caused County and Town staff to consider entering into a lease-development arrangement with the State. However, we have also learned of other opportunities, with the State of Colorado Department of Local Affairs and possibly federal funding, that may be available to offset some of the initial purchase price, and are investigating those. It should also be noted that Summit County Staff have described a preference for the land purchase option from the State. Based on meetings to be held the week of December 6, additional information should be available for the December 14 Town Council meeting.

The Town Finance Director prepared a sample analysis comparing project financing costs (through Certificates of Participation) versus lease expenses (paid to the State of Colorado) over the life of the project. This analysis suggests that while ground lease may be attractive at the outset due to deferred land costs, purchase and ownership of the property is likely more attractive in the long term. Note that these estimates are subject to specific loan and financing rates, as well as development of a 5-year financing proforma, which estimates rental revenues based on AMI targets for the rental units and revenues from the non-residential office space leased to the State.

The estimates shown in the chart below are based upon a negotiated lease or purchase of a \$3,000,000 parcel of land. Also note that ground leases may often have escalations built in for future years. It is also worth noting that under a purchase scenario, the interest expense is likely offset by the appreciation of the land. Interest rates included are a reasonable expectation based upon current market conditions.

	Rate	Annual Payment
Purchase (30yr term)	2.94%	\$151,873
Ground Lease	5%	\$150,000

Next Steps: At this time, purchase of the property seems to be the preferred option. CDLE has indicated that the purchase process requires approval by the State legislature, likely in January 2022. To facilitate this purchase and memorialize temporary CDLE offices during development and permanent CDLE office space on the new development, the partnership with the County, and project financing, a number of agreements or other actions by council would be required.

- A purchase agreement will be required which spells out the terms and conditions of the agreement.
- The Town and County will need an intergovernmental agreement (IGA) to define the roles and responsibilities of each to develop and manage the project.
- A Reimbursement Resolution would be presented to Town Council. Such a resolution would allow for the land to be purchased from the State and then to be reimbursed by the Certificates of Participation at a later date. This structure of a 'cash purchase' with the State will prevent potential complications of closing the property sale.
- A recommendation would be brought to the Council regarding an agreement to retain special bond counsel; bond counsel will be required in order to complete the financing of the project.

If Council is in support of continued pursuit of this project, these agreements would be brought back for Council's consideration in January or February 2022.

Financial Impact: Total cost of the project is to be determined, but based on preliminary estimates, the project could cost between \$13 and \$21 million to develop. Expenses for this project were not contemplated in the 2022 Adopted Budget and would require a Resolution to add supplemental appropriations to an amended budget. The 2021 ending balance of the SCHA Fund (5A) is projected to be \$7,142,503. Based upon total costs and market conditions on interest rates, annual debt payments (30-year term) may range from \$680k - \$1.1M. Debt issuance costs in the first year would be an additional expense.

<i>30 year term</i>	Tax Exempt Financing	
	2.94%	3.1%
\$ 13,440,000	\$680,391	\$694,592
\$ 21,030,000	\$1,064,630	\$1,086,850

Alignment with Strategic Plan: Having an adequate supply of affordable workforce housing available to local businesses is essential to supporting each of Town Council's Strategic Plan priorities.

Staff Recommendation: This potential project is an opportunity to redevelop an underutilized property in downtown Frisco. As the parcel is owned by the State of Colorado, and Summit County is interested in partnering in the development of the project, this is a unique opportunity to collaborate to meet Town, County, and State goals. Staff requests Council provide direction to staff to draft and develop the necessary agreements for Council consideration for property purchase from the State, and for the partnership between the Town and County for development and financing. Additionally, staff requests that Council provide feedback on potential goals for project development related to occupancy / income levels, design aesthetic, sustainability goals, and similar, as these will have an impact to project scope and costs.

Approved By:

Tony O'Rourke, Town Manager
Leslie Edwards, Finance Director

Attachments: None