

Affordable Housing Financing Fund

February 12, 2025

Proposition 123: Equity Program Guidelines



COLORADO
Office of Economic Development
& International Trade



Proposition 123: Equity Program

The Equity program provides below-market-rate equity investments to eligible for-profit and nonprofit entities for the construction or preservation of low- and middle-income multifamily rental developments. A Tenant Equity Vehicle (TEV), funded through Proposition 123 program earnings, will be established by OEDIT, CHFA, and a third-party administrator to benefit the residents of developments that receive Equity financing.

Guidelines 02-12-2025

Eligible Projects	<ul style="list-style-type: none"> • Low-income multifamily affordable rental developments • Middle-income multifamily affordable rental developments • Preservation of existing developments at risk of losing affordability • This equity cannot be paired with federal or state Housing Tax Credit equity
Program Benefits	<ul style="list-style-type: none"> • Flexible source of capital with below-market return expectations • Structured with equity returns based on available cash flow
Program Allocation	Program funding 40% to 70% of total Affordable Housing Financing Fund (AHFF) annual allocation
Eligible Project Sponsors	For-profits, nonprofits, governmental entities including housing authorities, and tribal governments
Maximum Investment Size	The maximum Program Investment amount is \$15,000,000. Investment size will be based on a comprehensive evaluation of the project's financials, supporting documentation, and available program funding.
Minimum Investment Size	\$1,500,000
Eligible Uses	Eligible project costs include acquisition, construction hard costs, professional fees, financing costs, soft costs, and reserves. Projects using modular construction with an advance factory deposit requirement may be able to use Equity funds for this purpose.

Investment Returns	Below-market returns based on available annual cash flow, with any remaining capital paid in full or in part at a capital event. The Program Investment term is up to 30 years.
AMIs Served	Not to exceed 90% average AMI for all restricted units
Collateral	The Program Investment will be secured by the project assets
Fees	<ul style="list-style-type: none"> • 1% investment placement fee • Construction monitoring and compliance fees • Standard closing costs
Affordability Requirements	A Regulatory Agreement ensuring affordability for 30 years will be required, which must include a two-year notice of sale to local government.
Priorities	<ul style="list-style-type: none"> • Statutory Priorities: <ul style="list-style-type: none"> • High-density housing • Mixed-income housing • Environmental sustainability • Strategic Policy Priorities: <ul style="list-style-type: none"> • Shovel-ready projects that result in new units • Use of Colorado manufactured modular/offsite building technology, if reasonably cost-competitive with traditional construction methods • Inclusion of home-based child care or commercial child care facilities • Geographic diversity



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Program Description and Eligible Projects

The Affordable Housing Financing Fund Equity Program (Program), as created by Proposition 123, provides equity investments (Program Investment) to eligible low- and middle-income rental projects, including existing housing projects for purposes of establishing or preserving affordable rental units. Projects that result in the construction of new units will be prioritized for selection.



Program Benefits and Funding Allocation

The Program provides an equity investment with below-market return expectations to help support the development of new low-income and middle-income rental housing units and the preservation of existing affordable housing units.

The total amount allocated to the Equity Program is limited annually to between 40 percent and 70 percent of the total available Colorado Affordable Housing Financing Fund.

Eligible Project Sponsors

A project that applies for funding from the Program must be located in the State of Colorado in a jurisdiction that has received approval through the Colorado Division of Housing to participate in the Colorado Affordable Housing Financing Fund. For-profit entities, nonprofit, government entities including housing authorities, and tribal governments with prior experience in developing affordable housing are eligible to apply.

Investment Terms and Conditions

Program Investments will have a term of up to 30 years, which may be extended by the program administrator, with below-market return expectations. Every Program Investment will require a 30-year Regulatory Agreement that includes a two-year notice of sale to the local government. The minimum Program Investment size is \$1,500,000 and the maximum size is \$15,000,000. Project sponsors may elect one of two types of Program Investment, depending on their project objective.

The program administrator reserves the right to waive certain requirements to ensure financial viability for a given project that achieves certain policy goals such as promoting geographic diversity, achieving affordability goals, or achieving other state housing policy goals.

Option 1: Affordability-Driven Equity Investments

These investments are mission-driven investments focused on delivering affordable units at lower AMI levels. Return expectations are lower, in exchange for deeper or longer-term affordability. For each project:

- The Program Investment may constitute up to the entirety of the remaining portion of equity needed in the capital stack after the sponsor equity contribution.
- Full or partial repayment of the Program Investment at a capital event is permitted beginning in year three after construction completion.

- In the event of partial repayment, the remaining Program Investment may be assumed by the buyer. If the remaining Program Investment is assumed by the buyer, an extended affordability term may be required, based on an evaluation of capital needs at the time of sale.
- The minimum Debt Coverage Ratio for all must-pay debt is 1.10.
- The Program Investment shall have a pari-passu cash flow and capital event participation rate commensurate with its equity share, unless otherwise negotiated with CHFA prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.
- A Developer Fee of up to 7 percent can be paid to the developer and will be paid in intervals at closing, construction completion, and conversion.
- Sponsor equity may be structured to receive up to a 10 percent internal rate of return by year 30.
 - If the property meets or over-performs its underwritten IRR at the time of a capital event, the sponsor may opt to participate in a promote structure entitling the sponsor to 15 percent of remaining profit after clearing the sponsor IRR hurdle.

Option 2: Mixed-income Equity Investments

These investments are market-driven investments focused on delivering mixed-income and middle-income units. Return expectations are higher than Option 1, but still below market. For each project:

- The Program Investment may constitute up to the entirety of the remaining portion of equity needed in the capital stack after the sponsor equity contribution.
- Full or partial repayment of the Program Investment at a capital event is permitted beginning in year three after construction completion.
 - In the event of partial repayment, the remaining Program Investment may be assumed by the buyer. If the remaining Program Investment is assumed by the buyer, an extended affordability term may be required, based on an evaluation of capital needs at the time of sale.
- The minimum Debt Coverage Ratio for all must-pay debt is 1.20.
- The Program Investment shall have a pari-passu cash flow and capital event participation rate commensurate with its equity share, unless otherwise negotiated with CHFA prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.
- A Developer Fee of up to 4 percent will be paid in intervals at closing, construction completion, and conversion.
- Sponsor equity may be structured to receive up to a 15 percent preferred return during the first five years, however, the preferred return must be 12 percent or lower if the holding period is longer than five years.
 - If the property meets or over-performs its underwritten IRR at the time of a capital event, the sponsor may opt to participate in a promote structure entitling the sponsor to 15 percent of remaining profit after clearing the sponsor IRR hurdle.

Reserve Requirements

The project shall budget for operating reserves equal to four months of operating expenses. The minimum per-unit replacement reserves are \$300 for age-restricted properties and \$350 for family properties.

Investment Returns and Fees

The annual Program Investment returns will be determined via CHFA's Cashflow Calculation Worksheet, which will be completed during the preparation and audit of the property's annual financial statements. The Program Investment shall have a pari-passu cash flow participation rate commensurate with its equity share, unless otherwise negotiated with CHFA prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.

All Program Investments will have a 1.0 percent investment placement fee with standard closing costs, including but not limited to third-party reports and title costs.

Security Interest

Program investments will be secured by a subordinate Deed of Trust and Security Agreement on the real estate and personal property, subordinate only to hard debt, unless otherwise determined by CHFA.

AMI Restrictions

The average of rents for the restricted units in projects financed through the Program must not exceed 90 percent of Area Median Income (AMI) or below, as defined by HUD/CHFA, unless a community has successfully petitioned DOLA for a higher average AMI.



Tenant Equity Program (TEV)

Projects will be required to participate in a Tenant Equity Vehicle (TEV), funded through program earnings exclusive to Proposition 123 Concessionary Debt interest and Equity returns to the state, which will be established by OEDIT, CHFA and a third-party administrator to benefit the residents of developments that receive Prop 123 Equity. It will be the responsibility of the property owner and its property manager to inform residents that their property is participating in the program, and to assist residents in enrolling in the program.

Affordability Covenants

All projects will be subject to a Regulatory Agreement to ensure that the units will be maintained and rented as income-qualified units for 30 years. The Regulatory Agreement will require a two-year notice to the local government.

Reporting

Projects will be subject to ongoing compliance including audits of new resident income verification, annual financial reports, and periodic physical inspections.

Application Prioritization

All applications will be evaluated with an emphasis placed on the following criteria:

Statutory Priorities

- High density housing evaluation informed by local density definitions and/or maximum allowable density when feasible based on local conditions
- Mixed income is defined as serving at least three different income levels that average 90 percent AMI or less
- Environmental sustainability as defined below

Strategic Policy Priorities

- Use of Colorado manufactured modular/offsite building technology if reasonably cost-competitive with traditional construction methods
- Inclusion of home-based child care units or commercial child care facilities
- Shovel-ready projects that result in new units
- Geographic diversity

Projects must meet the three statutory priorities listed above to apply and will be prioritized based on compliance with the Strategic Policy Priorities listed above. The statutory Environmental Sustainability priority is defined below.

Environmental Sustainability Standards

Each of the following is required to meet the Environmental Sustainability standard.

1. Certification from one of the following:
 - a. Enterprise Green Communities Certification Plus
 - b. Enterprise Green Communities
 - c. Zero Energy Ready Homes
 - d. Energy Star NextGen Certification
 - e. National Green Building Standards
2. Projects located in jurisdictions that have not adopted the 2021 or higher International Energy Conservation Code may opt out of the certification if they commit to using the 2021 or higher IECC and State Model Energy and Solar Ready codes when they develop the units. Note: per SB24-214, on or after January 1, 2025, all State funded projects with new units are required to use Energy Star appliances.
3. Projects within Transit-oriented Communities (TOC), defined by HB24-1313, must be within the Transit Area Maps found at engagedola.org/land-use-and-housing/news_feed/updates-to-hb24-1313-transit-oriented-communities-maps. All projects not located in TOCs must be located within one half mile of a regularly scheduled transit stop or community center where jobs and services are located.
4. All projects must have water efficient design inside and outside. Full guidance can be found at coloradowaterwise.org.
5. All projects must monetize federal and state energy efficiency tax credits. See the Colorado Multifamily Affordable Housing Electrification Hub at multifamily-ehub.chfainfo.com for a list of energy credits available.
6. Projects must report utility costs and performance to the Energy Star Portfolio Manager system (portfoliomanager.energystar.gov).
7. Application requirements are also outlined on the Affordable Housing Finance Fund website, coloradoaffordablehousingfinancingfund.com. Applications will be reviewed based on the following:
 - a. achievement of the Statutory and Strategic Policy Priorities listed above
 - b. geographic distribution
 - c. financial feasibility
 - d. funding availability
 - e. readiness to proceed
 - f. number of units created relative to local need/demand
 - g. leveraging private capital

Application Submission

Starting Monday, February 24, 2025, applications will be available and accepted for the Proposition 123 Equity program. The application period will close on Tuesday, March 18, 2025, at 5:00pm MT.

Applications may be downloaded at coloradoaffordablehousingfinancingfund.com/equity, and questions about the Equity program may be submitted to equity@chfainfo.com.

February 24, 2025	CHFA will begin accepting applications.
March 18, 2025	Application submission period will end at 5:00pm MT.
May 2025	CHFA will announce project sponsors selected to receive Equity funds.

Contacts

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