



Permanent Supportive Housing Aids Denver's Most Vulnerable

MARK O'MEARA, SENIOR WRITER, NOVOGRADAC & COMPANY LLP

As one of the largest behavioral health centers in Colorado, the Mental Health Center of Denver has a significant impact on the area. It provides mental health treatment, prevention, outreach and crisis services to more than 44,000 children, families and adults each year.

The organization continues to increase its efforts, this time with a 60-unit permanent supportive housing development serving chronically homeless individuals who struggle with mental health and substance abuse in Denver.

"We experienced a sharp increase in demand for housing the homeless over the last few years," said Oriana Sanchez, director of real estate and facilities at Mental Health Center of Denver. She said 750 individuals identified as chronically homeless in Denver in 2015. "And, I know those numbers have gone up since then," said Sanchez.

The Mental Health Center of Denver's portfolio consists of assisted living facilities, permanent supportive housing and U.S. Department of Housing and Urban Development (HUD) subsidized housing. In total, the Mental Health Center of Denver can

house 227 individuals, with an additional 60 units of housing coming onboard once Sanderson Apartments is complete. Sanchez said Mental Health Center of Denver has a 300-person waitlist for its housing. "We could open four Sanderson Apartments tomorrow and still not be able to solve our housing need, nor the larger need in Denver," said Sanchez.

Sanderson Apartments is a three-story building with all one-bedroom apartments. The 50,000-square-foot development is split equally between its housing component and its common amenities and service space. Sanchez said this is what really separates Sanderson Apartments from other permanent supportive housing developments. "We believe this is how permanent supportive housing should be done," said Sanchez. "We have seen that it works."

The communal space includes a wellness center, a library and two common rooms, one of which has a catering kitchen. Sanchez said the development has double-loaded corridors with sitting areas on each floor, which she said invites residents to be more interactive. Sanchez said it is of utmost importance that this population feels safe. As such, Sanchez said Sanderson Apartments was designed under

The Need for the Denver Social Impact Bond Program

Each year, 250 chronically homeless individuals account for:



14,000
days in jail



2,200
visits to
detox



1,500
arrests



500
emergency
room visits

\$29,000 average annual cost per individual to taxpayers

\$7 million average annual cost to the city of Denver

Sources: Mental Health Center of Denver, Novogradac & Company LLP

continued from page 1

the trauma informed care model, which is designed to provide a safe, open and inviting environment that minimizes re-traumatizing people. As a result, this development was designed to have as much light and openness as possible.

In order to make sure residents feel safe, there is an enclosed courtyard on the interior of property. There is also other exterior space, including a basketball court, gazebo, community garden, patios and outdoor seating.

The development will be environmentally friendly. It is LEED for Homes platinum certified. The development has plans to include a solar array. Other green features include LED lighting throughout the property and various water conservation measures. Construction of Sanderson Apartments began in May 2016 and will be complete in August.

Resident Services

Mental Health Center of Denver will not only develop, own and operate Sanderson Apartments, it will also provide on-site resident counselors and safety officers. Residents will be further supported by an assertive community treatment (ACT) team to include vocational counselors, a prescriber, a nurse, case managers and access to primary care and pharmacy services. “The hardest piece to fund is the supportive services,” said Sanchez. “That is what makes permanent supportive housing so difficult, funding those robust services.”

Social Impact Bond

Because Mental Health Center of Denver serves a unique population, it was able to use Denver’s Social Impact Bond (SIB) program, which provides housing and supportive services to the 250 homeless people who most frequently use the city’s emergency services, including police, jail, the courts and emergency rooms.

continued on page 3

continued from page 2

Members of this population will be selected at random to be housed at Sanderson Apartments.

“The city of Denver noticed that it had been spending a lot of money on this population with poor results,” said Tyler Jaeckel, government innovations fellow with the Denver Department of Finance. Jaeckel said the SIB program was established as a long-term alternative to more efficiently help this vulnerable population. This program allows the city to “stop spending money on jails and emergency room and detox visits and instead spend it in a more beneficial way,” said Jaeckel.

The SIB program provides flexible funding that can be used to provide comprehensive services. However, Jaeckel said, “The program provides performance-based loans.” Under the SIB program, Sanderson Apartments receives upfront operating dollars and is not at risk of losing this subsidy. The SIB investors, however, are repaid based upon the performance of the program, said Jaeckel. Sanderson Apartments must help the city reduce the number of jail bed days incurred by this population and increase their housing stability, among other things. Jaeckel said the SIB fills the funding gap on the services side, between what Medicaid will pay for and what the services actually cost.

Financing

In addition to the SIB program, Mental Health Center of Denver was able to use another unusual program: the Pathways Home Supportive Housing Toolkit, which is sponsored by the Colorado Housing and Finance Authority (CHFA) and managed by Colorado Gov. John Hickenlooper’s office.

The toolkit is a five-month capacity-building curriculum designed to help nonprofits, housing authorities and service providers develop high-quality permanent supportive housing in their respective communities. “The purpose of the Pathways Home Supportive Housing Toolkit is to create permanent supportive

housing. Period,” said Jennifer Lopez, director of homeless initiatives at the office of Gov. Hickenlooper. Lopez said Colorado does three things very well that attract investors to permanent supportive housing developments. First, Lopez said the state underwrites service providers and mitigates risk for development parties at the state level. This is important because permanent supportive services can be difficult to fund, said Lopez. Second, the state commits project-based Section 8 vouchers to its permanent supportive housing stock. And finally, Lopez said that Colorado allows for an increase in development costs to finance services at these properties.

Lopez also liked this development because it let a service provider (Mental Health Center of Denver) custom build a development that will house and support 60 homeless or formerly homeless individuals in Denver.

CHFA provided an \$11.4 million allocation of 9 percent low-income housing tax credits (LIHTCs). Cris White, executive director and CEO of CHFA, said Sanderson Apartments was an attractive investment because CHFA is committed to creating permanent supportive housing across Colorado. White also liked this development because it had no private sector debt and because it serves very-low-income households. Finally, White said this was an attractive development because, “the Mental Health Center of Denver had its funding sources lined up well.”

Enterprise is the syndicator for the 9 percent LIHTCs, placing \$12.4 million in a proprietary fund with American Express as the end investor. Enterprise was also involved on the SIB portion of the transaction, helping to structure the SIB as the fiscal agent for the program. “Sanderson Apartments fit Enterprise’s mission to provide housing opportunities to the most vulnerable in our community,” said Brian Windley, vice president, originator at Enterprise. “Mental Health Center of Denver is a very reputable organization. And

continued on page 4

continued from page 3

while it didn't have any experience with the tax credits, it is very adept at providing services to this population.”

The development also received project-based Section 8 vouchers for every unit, \$600,000 in HUD HOME funds from the city of Denver, a \$450,000 loan from the Colorado Housing Investment Fund and \$320,000 in funding from the Colorado Housing Development Grant program. ❖

Sanderson Apartments

FINANCING

- ◆ \$12.4 million 9 percent LIHTC equity investment from American Express, with Enterprise as the syndicator
 - \$11.4 million 9 percent LIHTC allocation from the Colorado Housing and Finance Authority
- ◆ \$600,000 in HUD HOME funds from the city of Denver
- ◆ \$450,000 loan from the Colorado Housing Investment Fund
- ◆ \$320,000 in funding from the Colorado Housing Development Grant program

This article first appeared in the April 2017 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2017 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.

EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Michael G. Morrison, CPA

James R. Kroger, CPA

Owen P. Gray, CPA

Thomas Boccia, CPA

Daniel J. Smith, CPA

COPY

SENIOR EDITOR

Brad Stanhope

ASSIGNMENT EDITOR

Teresa Garcia

SENIOR WRITER

Mark O'Meara

CONTENT MANAGEMENT SPECIALIST

Elizabeth Orfin

CONTRIBUTING WRITERS

Hana Eskra

Owen Gray

Joyce Hsia

Peter Lawrence

John Tess

John Leith-Tetrault

Forrest Milder

Albert Rex

ART

CARTOGRAPHER

David R. Grubman

PRODUCTION

Alexandra Louie

James Matuszak

Jesse Barredo

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz

alex.ruiz@novoco.com

415.356.8088

ADVERTISING INQUIRIES

Carol Hough

carol.hough@novoco.com

415.356.8040

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX ADVISOR.

ADVISORY BOARD

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke

BOSTON FINANCIAL INVESTMENT MANAGEMENT

Jana Cohen Barbe

DENTONS

Tom Dixon

BOSTON CAPITAL

Rick Edson

HOUSING CAPITAL ADVISORS INC.

Richard Gerwitz

CITI COMMUNITY CAPITAL

Rochelle Lento

DYKEMA GOSSETT PLLC

John Lisella

U.S. BANCORP COMMUNITY DEV. CORP.

Philip Melton

BELLWETHER ENTERPRISE

Thomas Morton

PILLSBURY WINTHROP SHAW PITTMAN LLP

Mary Tingerthal

MINNESOTA HOUSING FINANCE AGENCY

Rob Wasserman

U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Michael Kotin

KAY KAY REALTY

Michael Snowden

HIGHRIDGE COSTA HOUSING PARTNERS

Gianna Solari

SOLARI ENTERPRISES INC.

Kimberly Taylor

HOUSING DEVELOPMENT CENTER

HOUSING AND URBAN DEVELOPMENT

Flynnan Janisse

RAINBOW HOUSING

Ray Landry

DAVIS-PENN MORTGAGE CO.

Denise Muha

NATIONAL LEASED HOUSING ASSOCIATION

Monica Sussman

NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman

COMMUNITY REINVESTMENT FUND

Merrill Hoopengardner

NATIONAL TRUST COMMUNITY INVESTMENT CORP.

Scott Lindquist

DENTONS

Matthew Philpott

U.S. BANCORP COMMUNITY DEV. CORP.

Ruth Sparrow

FUTURES UNLIMITED LAW PC

Elaine DiPietro

ENTERPRISE COMMUNITY INVESTMENT INC.

HISTORIC TAX CREDITS

John Leith-Tetrault

NATIONAL TRUST COMM. INVESTMENT CORP.

Bill MacRostie

MACROSTIE HISTORIC ADVISORS LLC

John Tess

HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Bill Bush

BORREGO SOLAR

Ben Cook

SOLARCITY CORPORATION

Jim Howard

DUDLEY VENTURES

Forrest Milder

NIXON PEABODY LLP

© Novogradac & Company LLP

2017 All rights reserved.

ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.