S&P Global Ratings

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Housing Catalyst, Colorado; General Obligation; Multifamily Whole Loan

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Table Of Contents

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Credit Profile		
Housing Catalyst multifam hsg rev bnds (Oak 140 Apts Proj) ser 2021A		
Long Term Rating	AA-/Stable	Current
Housing Catalyst multifam hsg rev bnds (Oak 140 Apts Proj) ser 2021B		
Long Term Rating	AA-/Stable	Current
Housing Catalyst ICR		
Long Term Rating	AA-/Stable	Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on Housing Catalyst Colo., is 'AA-'.
- Our long-term rating on Housing Catalyst's general obligation (GO) debt is 'AA-', based on our ICR on the authority.
- The outlook is stable.

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation nor consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

The rated debt--Housing Catalyst's 2021A and 2021B multifamily housing revenue bonds issued for its Oak 140 project -- is secured by the loan payments and available funds under the trust estate and the authority's general revenues, as defined in transaction documents. The GO bond rating is equivalent to our ICR on the authority.

Credit overview

Housing Catalyst, established in 1971 to address adequate and safe housing needs in the city of Fort Collins and Larimer County, provides, according to its stated mission, sustainable, long-term affordable housing solutions. Housing Catalyst achieves its mission by adhering to a triple bottom-line philosophy that includes:

- Maintaining the fiscal viability of the organization;
- Achieving a social goal by providing affordable housing and supportive services; and
- Achieving environmental sustainability.

Housing Catalyst participates in several housing programs that serve its mission, including the U.S. Department of Housing and Urban Development (HUD)'s Low Rent Housing Program (Public Housing) and Housing Choice Voucher Program. As of Dec. 31, 2022, Housing Catalyst owns and operates 1,146 units and administers 1,638 vouchers for the city of Fort Collins and Larimer County. The authority's remaining 48 public housing units are currently undergoing disposition under Section 18, which is projected to occur by the end of fiscal 2023. In 2022, Housing Catalyst administered approximately $15.4 million in Housing Assistance Payments (HAP) to local landlords on behalf of local family tenants.

Our rating on the authority's bonds reflects our opinion of the ICR and a pledge of the authority's general revenues.

We assess Housing Catalyst's enterprise and financial risk profiles as very strong and strong, respectively. We view that there is a moderate likelihood that the U.S. government would provide extraordinary support to Housing Catalyst in the event of financial distress. These credit factors, combined, lead to an indicative stand-alone credit profile of 'aa-' on the authority and a final rating of 'AA-'.

The ICR and GO bond rating reflect our view of Housing Catalyst's:

- Very strong enterprise risk profile, supported by our assessment of very strong market dependencies, specifically the need and demand for affordable housing in Fort Collins, and low industry risk;
- Very strong management and governance assessment based on senior management's extensive experience and dedication to affordable housing, supported by the authority's overall strategy and mission, board involvement and approval processes, and financial policies and risk management standards; and
- Strong financial risk profile, based on: 1) a strong debt profile based on an average and expected debt-to-EBITDA of 12%, and an adjusted EBITDA-to-interest higher than 1.5 times based on audited 2021 and 2022 financial results, budgeted fiscal 2023, and forecasts for fiscal years 2024 and 2025; 2) vulnerable financial performance assessment based on our calculated and expected EBITDA-to-operating revenues of between 10% and 20% for the period, which incorporates audited 2021 and 2022 financial results, budgeted fiscal 2023, and forecasts for fiscal years 2024 and 2025; and 3) extremely strong liquidity assessment based on liquidity ratio of more than 2.5 times based on estimated sources over uses during the next 12 months.

Our ICR on Housing Catalyst includes analysis of both the operations and initiatives of the authority (primary government) as well as the operations and initiatives of these discretely presented component units. While the affiliated entities are structured as legally separate, the nature and significance of their relationship to Housing Catalyst are such that, in our view, excluding them from our analysis would be misleading. Throughout this report, we calculate financial figures and ratios by combining the audited results of Housing Catalyst and its affiliates. Likewise, our assessment of asset quality and occupancy includes properties held by the affiliate entities.

Environmental, social and governance

We analyzed environmental, social, and governance (ESG) risks relative to Housing Catalyst's industry risk, regulatory framework, market dependencies, management and governance, financial performance, and debt and liquidity profiles. We view the authority's ESG risks to be neutral in our credit analysis.

Outlook

The stable outlook reflects our view that Housing Catalyst's enterprise and financial risk profiles will remain consistent with the current rating during the two-year outlook period. More specifically, we believe that the strength of the authority's liquidity and debt profiles will continue to compensate for the vulnerable financial performance and that market dependencies, especially the demand for affordable housing, in Fort Collins will remain very strong while management continues to meet its mission.

Downside scenario

Should our financial risk profile assessment worsen due to weakening debt profile and/or weakening liquidity assessments, the rating might no longer be consistent with the 'aa-' SACP and we could revise the outlook to negative or lower the rating. Furthermore, should our view of management and governance change due to key personnel turnover or inconsistency of strategy with operational capabilities and market conditions we could revise the outlook to negative or lower the rating.

Upside scenario

Conversely, should the financial performance of the authority improve to where the authority's EBITDA-to-operating revenues ratio is consistently above 20% along with a stable or improving debt profile score, stable liquidity score, and consistent enterprise profile assessments, we could take a positive rating action if we view credit quality more in line with that of higher-rated peers and according to our criteria.

Credit Opinion

Enterprise Risk Profile

We think public housing authorities (PHAs) benefit from a strong public policy mandate and operate under a stable, well-established framework that makes them key providers in the sector. There is strong sector oversight, with high governance, reporting, and disclosure standards so that sector or individual risks are easily identified. However, once identified, risks are not always remedied at an early stage.

Operational support to PHAs is direct and ongoing. Housing Catalyst regularly receives federal grants in the form of capital and operating contributions to maintain and operate public housing and administer various programs to provide low-income affordable housing. There is no precedent of adverse negative intervention from governments or their agencies, and we do not expect any in the next few years. Public housing is subject to tenant income and rent limits.

Housing Catalyst's market position is very strong, in our view, reflecting the balance of the authority's regulatory framework and systemic support with market dependencies and management and governance. The demand for housing units, especially affordable housing units, outpaces supply, keeping vacancies low.

In our opinion, Housing Catalyst maintains very strong management and governance characteristics, based on our assessment of its strategic planning process, the consistency of strategy with operational capabilities and marketplace conditions, management's expertise, experience, and dedication to affordable housing, as well as the authority's financial policies and risk-management standards. Housing Catalyst's strategic business model aims to invest in and provide affordable housing that supports the local economy through resident support systems that offer critical tools and resources to enable sustainable, long-term growth and tenancy. According to management, Housing Catalyst will continue to leverage public-private partnerships, as well as traditional funding sources to create additional housing opportunities. We view Housing Catalyst as a progressive housing provider and developer actively working toward offering permanent solutions that move people out of homelessness, stabilize families, and improve lives in the Fort Collins and Larimer County communities. Housing Catalyst has demonstrated an ability to meet its core mission through innovative initiatives such as permanent supportive housing, Bring School Home enrichment activities, and its Jumpstart program, which provides life-skill guidance and links to service providers.

Housing Catalyst has a formalized strategic plan updated every five years and last updated in 2023. The current strategic plan incorporates seven goals, with four-to-six strategies to achieve each goal. Management consciously chose not to use specific and measurable key performance indicators to measure against the authority's goals. Management conducts in-depth quarterly financial reviews in each operating department as well as monthly reviews by the directors of each department. In 2022, Housing Catalyst became a move-to-work (MTW) agency in the landlord cohort to use MTW's benefits and waivers to develop innovative landlord incentives and policies.

Financial Risk Profile

Three equally weighted factors comprise our Financial Risk Profile (FRP) assessment: financial performance, debt profile, and liquidity. Our assessment of Housing Catalyst's financial performance and debt profile uses a five-year average, including audited fiscal years 2021 and 2022, estimated 2023 financials, and forecasted 2024 and 2025.

We consider Housing Catalyst's financial performance to be vulnerable based on adjusted EBITDA-to-adjusted operating revenue ratio well within the 10.0%-20.0% band, for 2021 and 2022 financial results through forecasted 2025 performance, with the average for that period being 15.1%. Fiscal 2021 was particularly strong in terms of revenue due to higher grants and has helped push the average ratio higher. Budgeted 2023 forecasts a drop in EBITDA from 2022 due to management's goal to become an employer of choice, which resulted in increased salary costs. We forecast expenses to rise at a slower pace in fiscal years 2024 and 2025 than in budgeted 2023 .

We view the authority's debt profile as strong based on a debt-to-EBITDA, consistently below 15% and as low as 9% in fiscal 2021 because of higher EBITDA in that year. The authority's EBITDA interest coverage is, on average, around 1.5 times, indicating prudent management of long-term obligations. We consider both the current and forecast debt of the primary government and the component units in our ratio analysis as the work done by the component units is integral to the overall mission of the authority. Our assessment of strong reflects metrics that incorporate $8.8 million in additional debt in the two-year forecast and outlook period. Depending on future debt issuance, should, all else equal, our calculated EBITDA interest coverage for the authority decrease to below 1.25%, without a commensurate decrease in debt-to-EBITDA, our assessment of the authority's debt profile could weaken to adequate and could affect the financial risk profile score and anchor.

We assess Housing Catalyst's liquidity to be extremely strong, with estimated sources of cash exceeding estimated uses of cash by more than 2.5 times over the next 12 months coupled with satisfactory access to external funding (see table 2). Housing Catalyst consistently has a liquidity ratio of more than 2.5 times reflecting management's conservative approach to stewardship of public property and funds through safeguarding against uncertainty by maintaining significant liquid assets.

Anchors, Overriding Factors, Caps, And Holistic Analysis

The anchor, determined by indicative scores and weights according to our methodology, is 'aa-' for the ICR. We applied no holistic adjustment, resulting in a final SACP of 'aa-'.

Application Of Other Criteria And Final Rating

We apply our criteria, "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, to derive the final rating, by combining the SACP, the current government rating, and the likelihood of extraordinary government support. We consider Housing Catalyst to have moderate likelihood of support from the U.S. government, given its limited importance and strong link. This assessment results in no adjustment to the SACP, resulting in a final ICR of 'AA-'.

Table 1

Housing Catalyst, Colo.--Key rating factors	
Factors	**Characteristic**
Industry risk	Very strong
Market position -- Regulatory framework	Very strong
Market position -- Market dependencies	Very strong
Management and governance	Very strong
Enterprise risk profile	Very strong
Financial performance	Vulnerable
Debt profile	Strong
Liquidity	Extremely strong
Financial risk profile	Strong

Table 2

Housing Catalyst, Colo.--Liquidity analysis	
Sources of liquidity ($0)	
Forecasted cash generated from continuing operations (if positive)	12,895,000
Cash reserves and liquid assets (adjusted to capture market value risk, where relevant)	29,491,000
Forecasted working capital inflows, if positive	
Proceeds from asset sale (when confidently predictable)	12,670,001
The undrawn, available portion of committed bank facilities or bank lines that can be drawn	3,000,000
Expected ongoing cash injections from a government or group member as appropriate	
Other cash inflows (such as dividends from joint ventures)	12,268,055
Total sources of liquidity	70,324,056
Uses of liquidity ($0)	
Forecasted cash generated from continuing operations (if negative)	
Forecast working capital outflows, if negative	
Committed capital expenditures	3,550,000

Table 2

Housing Catalyst, Colo.--Liquidity analysis (cont.)	
Uncommitted capital expenditures	6,250,000
All interest and principal payable on short- and long-term debt obligations coming due	16,141,220
Other cash outflows (such as investments in joint ventures)	
Total uses of liquidity	25,941,220
Liquidity ratio	2.7

Table 3

Peer comparison

Entity name	ICR	Units owned / managed	Average rent to market rent (%)	Vacancy rate (%)--SHP	Adjusted EBITDA (%) of adjusted operating revenue	Debt / nonsales adjusted EBITDA ratio (x)	Nonsales adjusted EBITDA / interest (x)	Liquidity ratio (x)
Housing Authority of the County of Butte (HACB)	A+	1,100	22.7	2.0	7.5	11.00	6.58	4.40
Housing Authority of the City of El Paso (HOME)	A+	11,463	41.5	2.9	23.2	29.09	1.72	2.88
Jacksonville Housing Authority	A+	3,207	40.5	2.2	7.2	9.92	7.40	3.80
Snohomish Cnty Hsg Auth	A+	2,563	47.5	2.3	15.8	10.87	3.47	3.83
Baltimore City Hsg Auth	A+	6,179	19.2	3.7	6.9	3.04	11.11	5.14
Cuyahoga Metropolitan Hsg Auth (City of)	A+	6,150	24.3	4.0	8.4	12.35	4.81	1.57
Howard Cnty Hsg Commission	A+	2,074	66.1	2.9	26.7	18.11	1.46	2.63
Denver Housing Authority	AA-	5,607	27.3	2.6	13.6	29.24	3.29	3.93
Housing Catalyst	AA-	1,750	33.6	4.1	15.1	11.89	1.54	2.70
Los Angeles County Dev Auth (LACDA)	AA-	3,229	19.1	1.3	10.1	0.21	35.00	7.02

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022