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Housing Catalyst, Colorado; General Obligation; Multifamily Whole Loan

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

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on Housing Catalyst (the authority), Colo.
- At the same time, we affirmed our 'AA-' long-term rating on Housing Catalyst's general obligation (GO) debt.
- 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 Housing Catalyst's general revenues, as defined in transaction documents. The GO bond rating is equivalent to our ICR on Housing Catalyst.

Credit overview

Housing Catalyst, established by the City of Fort Collins in 1971 to address the growing need for affordable housing in Northern Colorado, provides, according to its stated mission, sustainable, long-term affordable housing solutions.

Housing Catalyst participates in several housing programs that serve its mission, including the U.S. Department of Housing and Urban Development (HUD)'s Housing Choice Voucher Program and the Moving To Work (MTW) Demonstration program in the landlord incentives cohort. As of 2024, Housing Catalyst owns and operates 1,091 units and administers approximately 1,800 vouchers for the City of Fort Collins and Larimer County. The authority's remaining 15 public housing units were disposed of under Section 18, in January 2024. In 2024, Housing Catalyst administered approximately $19.9 million in Housing Assistance Payments (HAP) to local landlords on behalf of local family tenants.

The 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, respectfully. In our view, 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 (SACP) 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 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 very strong debt profile based on an average and expected debt-to-EBITDA of 15.5%, and an adjusted EBITDA-to-interest of approximately 1.9 times based on audited 2022 and 2023 financial results, estimated fiscal 2024, and forecasts for fiscal years 2025 and 2026; 2) vulnerable financial performance assessment based on our calculated and expected EBITDA-to-operating revenues of between 10% and 20% for the same period; and 3) extremely strong liquidity assessment based on liquidity ratio of more than six 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)factors relative to Housing Catalyst's industry risk, regulatory framework, market dependencies, management and governance, financial performance, and debt and liquidity profiles. The authority's mission to increase access to and preserve housing opportunities for low-income residents throughout Fort Collins exhibits social capital opportunities. We view the authority's ESG factors as 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 strong while management continues to pursue its mission.

Downside scenario

Should our financial risk profile assessment worsen due to a weakening financial performance, debt profile, and/or 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 is more in line with that of higher-rated peers and according to our criteria.

Credit Opinion

Table 1

Housing Catalyst, Colo.--Main rating factors

Factor	Assessment
Industry risk	Very strong
Regulatory framework	Very strong
Market dependencies	Strong
Management and governance	Very strong
Enterprise risk profile	Very strong
Financial performance	Vulnerable
Debt profile	Very strong
Liquidity	Extremely strong
Financial risk profile	Strong

Enterprise Profile

Industry risk: very strong

We view industry risk for social housing providers as low (equating to an assessment of '2,' or very strong; see table 1). Economic cycles can sometimes affect housing providers more than other types of social services because real estate fluctuations can change asset values. Real estate markets can be overbuilt, leading to depressed occupancy rates, rentals, and property values. Despite these factors, residential rental markets typically pose less risk compared with that of other property classes, and housing providers' focus on affordable housing typically lends further stability. Competitive risk is fairly low due to effective barriers to entry in many jurisdictions, minimal risk of substitution, and generally overall stable trends in growth margins.

Regulatory framework: very strong

We view public housing agencies as benefiting from a strong public policy mandate and operating 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 risks are easily identified. However, once identified, risks are not always remedied at an early stage.

Operational support to Housing Catalyst is direct and ongoing. The authority regularly receives federal grants in the form of operating contributions to maintain and operate low-income 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 during the next few years.

Market dependencies: strong

Housing Catalyst's market dependencies are strong, in our opinion. We calculate the average rent for units to be approximately 60% of market rent, according to third-party market information. In addition, vacancy at Housing Catalyst properties averaged 4.1% over the past three years, which we view as being on par with the market vacancy rate of 5.3% throughout the same period, and indicative of the strength of demand for affordable housing in Fort Collins.

Management and governance: very strong

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.

Financial Profile

Financial performance: vulnerable

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 2022 and 2023 financial results through forecasted 2026 performance, with the average for that period being 15.5%. With Village on Impala and Village on Eastbrook coming online in fiscal years 2025 and 2026, we expect financial performance will remain stable and potentially trend closer to the 20% threshold.

Federal, state, and county funding account for approximately 56% of operating revenue on average, including operating subsidies that grew recently and rental payments for project-based housing vouchers.

Debt profile: very strong

We view Housing Catalyst 's current debt profile as very strong, as supported by our adjusted EBITDA-to-interest and debt-to-adjusted EBITDA financial ratios. Using historical data for the consolidated government and including forecast debt, we calculate a five-year average adjusted EBITDA-to-interest ratio of approximately 1.9 times, and a debt-to-adjusted EBITDA ratio of 15.5 times. We apply an adjustment to our initial score base on a debt-to-adjusted

EBITDA ratio of approximately 6 times when removing soft debt. In addition, when removing soft debt interest for fiscal 2021 through 2024, the EBITDA interest coverage ratio has averaged above 2.5 times. With the payoff of $11.175 million of the Oak 140 bonds in 2024, we expect debt-to-adjusted EBTIDA ratios encompassing all debt and forecasted debt will potentially improve to levels below 15 times. We estimate total debt outstanding as of fiscal year-end 2026 will be approximately $96 million.

Liquidity: extremely strong

We assess Housing Catalyst's liquidity to be extremely strong, with estimated sources of cash exceeding estimated uses of cash by more than 6 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.

Table 2

Housing Catalyst, Colo.--Liquidity (Mil. $)	
Sources of liquidity	
Forecast cash generated from continuing operations	9.4
Cash and liquid investments	22.5
Forecasted working capital inflows	3.4
Proceeds from asset sale (when confidently predictable)	2.5
The undrawn, available portion of committed bank facilities or bank lines that can be drawn	3.0
Total sources of liquidity	40.8
Uses of liquidity	
Commited capital expenditures	1.5
Interest and principal payable on short- and long-term debt obligations coming due	5.2
Total uses of liquidity	6.7
Liquidity ratio	6.1

Related Research

U.S. Social Housing Providers: Laying The Groundwork To Address Affordable Housing Needs, Nov. 14, 2024