Investigation of a capital project and bond sale to build housing

Response to Council SLI 130-1-A-2

September 24, 2015

Statement of Legislative Intent 130-1-A-2

- Investigate a proposal under which the City would issue up to $1 billion in bonds to build publicly owned affordable housing
- Assumptions provided:
  - Housing sited on excess City property
  - Rent revenues as the primary source of the operating expense and debt service.

Presentation Overview

- Analysis of debt financing for affordable housing
- Availability of City land upon which to site City-financed affordable housing
- Model of 100-unit housing project using bonds
- Conclusion

Analysis of Debt Financing

- <u>Legal Debt Capacity</u>
  - Ability to debt finance projects constrained by availability of future revenues to repay debt with interest.
  - Current available legal debt capacity for LTGO bonds is $1.031 billion.
- <u>Managing Debt Capacity</u>
  - Bonds are a tool to spread out the costs of a large capital project over time.
  - Bonds for affordable housing would need to consider the competing needs for debt capacity and the potential impacts on overall City finances.
  - The City has managed debt conservatively and current financial policies limit debt service expenses to 7% of General Fund revenues.
  - Issuing debt equal to the City's full legal capacity would have adverse financial impacts, including negatively impacting the City's current AAA rating.
- <u>Debt Repayment</u>
  - If debt capacity were to be directed toward housing, the City would need to identify a new revenue source or reprioritize existing General Fund uses.

Availability of City Land

- FAS list of City-owned properties in 2014 includes 1,194 properties.
- Criteria applied to identify potential sites:
  - Within City limits (1,040 remaining)
  - Not fully utilized for an existing municipal purpose (210 remaining)
  - Not utility-owned (177 remaining)
  - Greater than 15,000 square feet (33 remaining)
- Considerations for 33 properties remaining:
  - In a location/configuration that limits site's development potential or suitability for housing production.
  - Not all properties are suited to residential use, e.g., some lack access to transportation.
  - Some non-utility owned parcels may have other constraints that limit the City's ability to discount the sale price.

Assumptions for 100-unit project

- Key assumptions underlying this analysis follows:
  - 100 units (20 studios, 30 1-br, 30 2-br, 20 3-br)
  - 34 units at 80% AMI; 33 units at 60% AMI; 33 units at 50% AMI (distributed proportionally by size)
  - Vacancy rate: 5%
  - Annual operating expense: $5,000 per unit (assumes property tax exemption)
  - Per unit development cost: $231,400 to $330,750 depending on unit size
  - Land cost: $0
  - Bond interest rate: 4.5% (includes cost of issuance)
  - Bond term: 20 years

Housing Project Model

- 100-unit project model found that even with using free City land, rents support 47% of total annual debt service costs and operations;
  - If estimated expenses (assumes property tax exemption) are paid first, remaining rent revenue supports 34% of debt service payment.
- Rent less Operations expenses provides enough net revenue to support $10 million in bonds; an additional $18.3 million in up-front subsidy is needed.

Capital Sources and Uses - Sample 100-unit Project

Uses			Sources	
Land	$0		Bond Proceeds	$27,861,760
Development	$27,861,760			
Total	$27,861,760		Total	$27,861,760

Annual Operating Revenue and Expense

Expense			Revenue	
Operations	$500,000		Rent	$1,228,829
Debt Service	$2,115,207		Annual gap	$1,386,378
Total	$2,615,207		Total	$2,615,207

Notes: Annual debt service of $2.1 million derives from applying an interest rate of 4.5% and a 20-year amortization period (level debt service) to a total borrowed total of $27.9 million.

Additional Housing Scenarios

- Five additional scenarios requested by Council were modeled with different assumptions.
- In all cases, rents were insufficient to support substantial debt service payments.
  - New Construction - Workforce
  - New Construction - Extremely Low Income
  - New Construction - Homeless
  - Acquisition Rehab @ 60% AMI
  - Acquisition Rehab @ 60/80% AMI

Conclusions

- A portion of the City's debt capacity could be made available to support investments in low-income housing.
  - Scale of any such investment should avoid risks that could jeopardize the City's bond rating and cost of borrowing.
- Rent revenues are insufficient to cover the cost of debt service.
- Bonds would have to be repaid with substantial new resources or a redirection of existing resources.