



DENVER
THE MILE HIGH CITY

Housing Bond Overview

March 2018

- Four questions were asked as part of the CAO review:
 - What are the limitations on the use of general obligation bonds to finance affordable housing?
 - What is the process for issuing bonds?
 - What other bonds and alternatives are available to leverage future income streams for affordable housing?
 - How have bonds been used in other jurisdictions to support affordable housing?

General Obligation Bonds

| TAX-EXEMPT | TAXABLE |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investors do not pay tax on interest income | Investors do pay tax on interest income |
| <p>Highly restrictive “public use” requirement</p> <ul style="list-style-type: none"> • City- or DHA-owned property & project • DHA-operated project | <p>Highly restrictive “public use” requirement</p> <ul style="list-style-type: none"> • City- or DHA-owned property & project • DHA-operated project <p>AND</p> <p>Less restrictive public purposes</p> <ul style="list-style-type: none"> • Property & project may be owned by third party • Gap financing of privately-developed affordable housing permitted |
| IRS-imposed spend-down requirements (time) | No spend-down requirements |

- Legal
 - Legal limitations based on Federal, State and Local laws
 - Federal: Tax exempt bond spending requirements
 - State: TABOR voting requirements and ballot structure
 - Denver: 3% limitation of total assessed valuation
- Policy/Guidelines
 - Developed to manage City resources and financial tools in a sustainable, responsible manner
 - Denver's Debt Policy
 - Bond rating agency metrics

| | Acquisition, Development, and Renovation | Financing of Third Party Development | Supportive Services / Rent/Utility Assistance Programs | Homeowner Assistance Programs | Administrative Expenses |
|-----------------------------|------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------|
| Mill Levy | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tax-exempt bonds | ✓ | | | ✓ Limited | Project delivery costs, not admin overhead |
| Taxable bonds | ✓ | ✓ | Legally permissible, contrary to best practice/city policy | ✓ | Legally permissible, contrary to best practice/city policy |

Other Cities' Affordable Housing Bonds

| | Amount | Tax-Exempt/Taxable | Uses |
|----------------------|-----------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Portland | \$258.4 million | Tax-exempt | <ul style="list-style-type: none"> Acquisition, construction and rehabilitation of public (city-owned) rental housing |
| Seattle | \$29 million | Taxable | <ul style="list-style-type: none"> Gap Financing, Home Ownership Subsidies Rehabilitation, development and preservation of affordable housing by third-party developers |
| Austin | \$65 million | Taxable | <ul style="list-style-type: none"> Rental housing development (including by third-party affordable housing developers) Home ownership and repair programs |
| San Francisco | \$310 million | Taxable | <ul style="list-style-type: none"> Acquisition, construction, predevelopment, development, and preservation of affordable housing by third-party developers Rehabilitation of public (city-owned) housing Homeownership down payment assistance |
| Los Angeles | \$1.2 billion | Taxable and Tax-Exempt | <ul style="list-style-type: none"> Development of permanent supportive housing and homeless facilities Construction and rehabilitation of affordable housing for households at risk of homelessness 10,000 units |

Process for Issuing Housing Bonds

| | |
|---|----------------------------------------------------------------|
| 1 | Determine proposed source, uses and amount of bond |
| 2 | Analyze proposal under current City Debt Policy |
| 3 | Draft ordinance and ballot question |
| 4 | Approval by voters at election |
| 5 | Market and issue bond(s), identify key investments, priorities |

An aerial photograph of Denver, Colorado, showing a dense urban landscape with numerous high-rise buildings and a clear view of the Rocky Mountains in the distance. A semi-transparent yellow banner is overlaid across the middle of the image.

RESPONSE TO ALL IN DENVER ON AFFORDABLE HOUSING GO

March 2018

- Add \$15 million in general fund dollars to double the dedicated fund in 2019
- Remove the sunset provision that constrains the dedicated housing fund
- Add an additional half-mill property tax to support the dedicated fund
 - Advance a \$110 million (or more) housing bond to Denver voters in 2018
 - ...Could include a provision to rebate housing tax increases to low-income households

- Community land trusts
- Financing accessory dwelling units
- Preserving existing income-restricted and naturally occurring affordable units
- Transitional housing for the homeless

Increase General Fund Contribution

- AID Proposal: Increase GF/DHS transfer from \$6.9m to \$21.9m.
- Currently the GF has transferred:
 - 2015: \$3.75
 - 2016: \$8m
 - 2017: \$5.38m, AHF established
 - 2018: \$6.9m
- Other GF contributions: \$4m in 2017 and possible \$6.75m in 2018.
- The process of developing the annual budget is an exercise in tradeoffs. Preemptively allocating funds would undermine this process.
- It has not yet been determined what capacity will be available in the 2019 GF budget.

20 year bond maturity @ .5 Mills

- Generates bond proceeds available for projects of \$100M - \$116M.

Pros

- Brings funds forward
- 0.5 mills impacts the median home \$15 per year
- New revenue to address affordable housing

Cons

- Property tax increase after valuation increases
 - 2015 reassessment average: 29%
 - 2017 reassessment average: 25%
- Timeliness: Voters would need to convert to debt mill if 2A mill or a vote on new mill and debt issuance
- Property tax rebate program could reduce bond proceeds

- Legal: Limitations on use (GO/COP)
- Policy: Managing the city's overall debt burden and credit ratings.
- Policy: Need to use funds within 3-5 years to program funds once issued
- Policy: Approximately \$2B of capital projects (new and maintenance) remain after GO passed in November 2017

General Obligation Bonds or Certificate of Participation

The Department of Finance (DoF) is tasked with developing a fiscally prudent GO program based on tax rates and revenue projections.

There are two primary considerations that guide DoF when constructing the size of a GO bond package:



1. **Tax revenue required to support a program and the impact to property tax payers.** As part of the two most recent bond programs in 2007 and 2017, calculating the amount that “fits within” the City’s existing GO debt mill levy of 8.433 mills without raising the tax rate that supports the debt was a key parameter.



2. **Ensuring that the added debt will not negatively impact the City’s AAA credit ratings** which would result in a higher cost of borrowing and could potentially impact the City’s ability to access the capital markets during economic downturns, thereby impacting taxpayers as well as the City’s ability to efficiently deliver future debt-funded capital projects.

Pay-As-You-Go v. Bonding Funds

| Projected Linkage Fee ₂ (A) | Proceeds @ .5 mill Assessed Value x .5 (B) | Bond Proceeds (E) | Cost of Issuance (F) |
|-------------------------------------------|-----------------------------------------------|----------------------|-------------------------|
| 2,144,988 | 8,218,528 | | |
| 3,204,347 | 8,218,528 | 46,317,980 | 437,020 |
| 4,305,222 | 8,382,899 | | |
| 4,391,327 | 8,382,899 | 34,679,720 | 390,280 |
| 4,479,153 | 8,550,556 | | |
| 4,568,736 | 8,550,556 | | |
| 4,660,111 | 8,721,568 | 34,679,720 | 390,280 |
| 4,753,313 | 8,721,568 | | |
| 4,848,380 | 8,895,999 | | |
| 4,945,347 | 8,895,999 | | |
| 5,044,254 | 9,073,919 | | |
| 5,145,139 | 9,073,919 | | |
| 5,248,042 | 9,255,397 | | |
| 5,353,003 | 9,255,397 | | |
| 5,460,063 | 9,440,505 | | |
| 5,569,264 | 9,440,505 | | |
| 5,680,650 | 9,629,315 | | |
| 5,794,263 | 9,629,315 | | |
| 5,910,148 | 9,821,902 | | |
| 6,028,351 | 9,821,902 | | |
| 6,148,918 | 10,018,340 | | |
| 103,683,020 | 189,999,516 | 115,677,420 | 1,217,580 |

Note: Administration charges allowable under the ordinance have not been applied to the property tax stream. If applied the total proceeds would be \$100m.

| Bond Proceeds (F) 3 Issuances | Cost of Issuance (G) |
|----------------------------------|----------------------|
| 46,317,980 | 437,020 |
| 34,679,720 | 390,280 |
| <u>34,679,720</u> | <u>390,280</u> |
| 115,677,420 | 1,217,580 |

- Total Principle and Interest Costs - \$195m

Comparison Summary

| 2018 through 2038 20-Year Comparison | | | |
|-----------------------------------------|---------------|----------------|-------------------|
| | Pay-As-You-Go | One Bond Issue | Three Bond Issues |
| Debt Proceeds | - | 116,895,000 | 116,895,000 |
| Cost of Issuance | - | 817,580 | 1,217,580 |
| Net Debt Proceeds Available for Housing | - | 116,077,420 | 115,677,420 |
| Mill Levy Revenue | 189,999,516 | - | - |
| Linkage Fee Revenue | 103,683,020 | 103,683,020 | 103,683,020 |
| Affordable Housing Fund | 293,682,535 | 219,760,440 | 219,360,440 |
| | | | |
| Par Amount of Bonds | - | 116,895,000 | 116,895,000 |
| Interest Cost | - | 64,830,304 | 78,240,081 |



Appendix

Colorado Revised Statutes 29-4-107.

Management of housing projects. (1) The city shall deliver possession of any housing projects constructed, acquired, or leased by it to the authority within the boundaries of which the city is included, but the title to all property comprising such housing projects shall remain in the city. The authority shall operate and maintain all such housing projects of the city and shall fix, levy, and collect such rents, fees, or other charges for the use and occupancy of such housing projects as such authority determines; ...

- Overall City of Denver GO Bond current obligations
- GO Bond obligations with 2017 A-G measures approved
- City's bonding capacity limits and constraints
- Opportunities to refinance existing debt, and using finance savings for housing
- Certificates of Participation
- Bonding the 0.5 mill dedicated to Affordable Housing Fund - process, opportunities, constraints
- Bonding an additional 0.5 mill for housing fund - process, opportunities, constraints

- Equity – Those that benefit from the item financed should pay for it;
- Effectiveness – Once the transaction is completed, it accomplishes its intent and the identified revenue source for repayment is adequate to meet debt service; and
- Efficiency – The relative cost of obtaining funds;
 - including the costs of the financing and the costs of collecting pledged revenues, is better than competing alternatives.

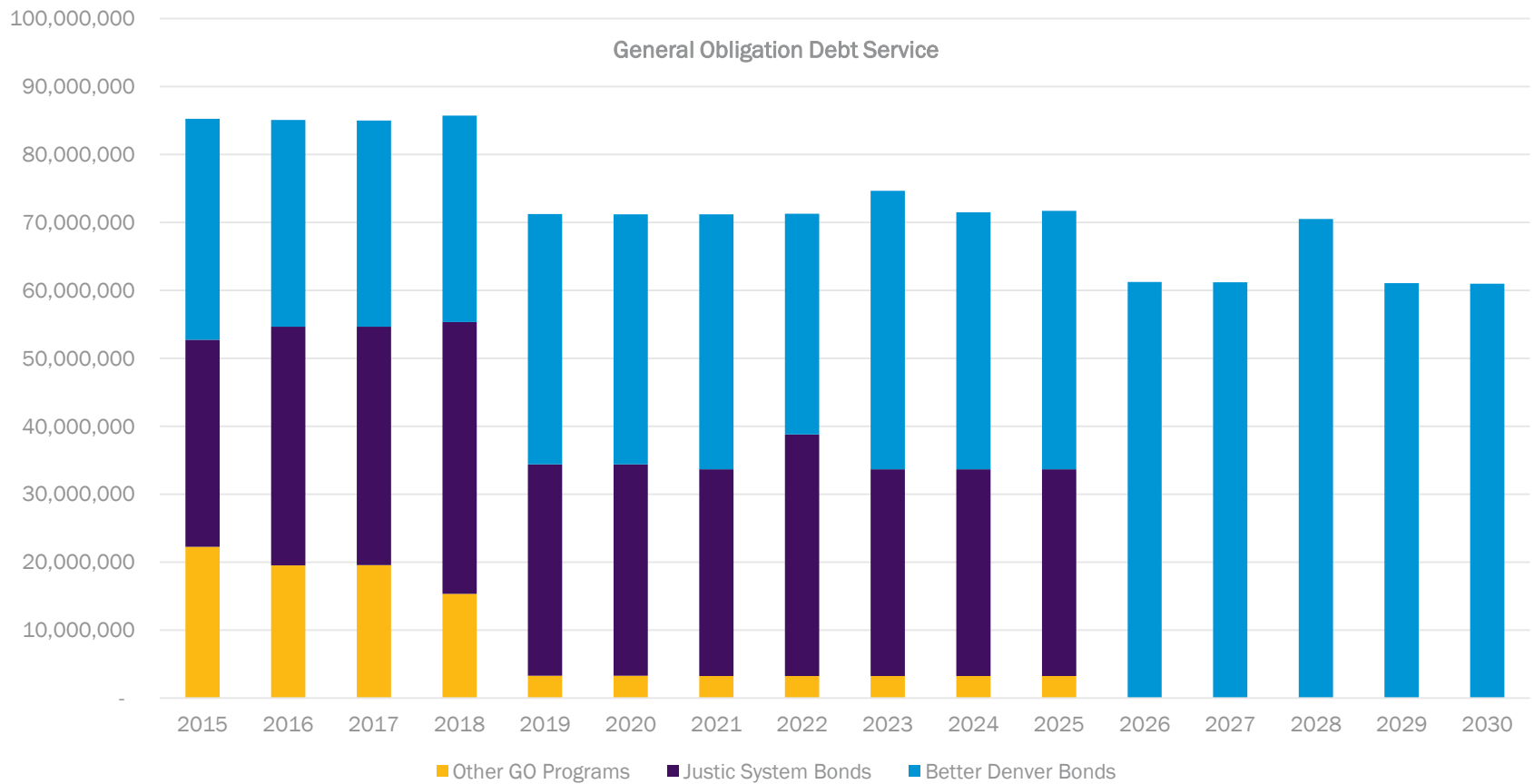
- Voter approval
- Projects with public interest
- 3% actual real and business property valuation limitation
- Prudent structuring
- Debt per capita management
- Ratings management

- Obligations shall comply with all applicable federal, state and local laws, regulations, and covenants and shall not be issued so as to jeopardize the tax status of outstanding Obligations;
- Obligations shall not be incurred to fund operations;
- Capital improvements to be financed should first be developed and approved in accordance with the City's capital planning process;
- The average life of the incurred Obligation should generally be no greater than the projected average life of the assets being financed;
- Reasonable expectation that Obligation proceeds will be utilized within 3-5 years

- Current mill levy of 8.433 mills.
 - Tax burden – each mill \$26
- Maintain credit ratings
- Impact to affordable housing fund

- The City generally maintains a 10-year GO bond election cycle.
- Every bond question put before Denver voters competes with other ballot issues, such as DPS, as well as future City projects and needs.
- The process to develop the 2017 GO bond package was thorough, iterative, and public in its efforts to develop the final list of projects.
 - Difficult choices were made and many worthy projects were left out of the package, including funding housing programs.
- \$937m program investment
- \$662m of current GO obligations outstanding before A-G

Current GO Outstanding



- Capital improvements and certain capital equipment will be eligible;
- Capital improvements should provide new revenue stream or measurable cost efficiencies or savings which will be realized and dedicated to lease payments of COPs;
- Capital improvements financed must be for basic and essential City services;
- The useful life of the asset(s) being financed should not be shorter than the term of the lease, but the maximum term of the lease should not exceed 30 years for real estate assets and 15 years for all other assets.
- Capital improvements may be new or replacement facilities
- City asset of similar value must be used as collateral in a COP transaction.

| <u>Series</u> | <u>Issuance</u> | <u>Outstanding</u> | <u>Final Maturity</u> |
|---------------|-----------------------------------------------|--------------------|-----------------------|
| | | <u>Principal</u> | |
| 2017A | Botanic Gardens Parking Facility Refunding | \$15,506,673 | 12/1/2028 |
| 2015A | 911 + Fleet Centers (Fire Stations & Library) | \$21,450,000 | 12/1/2034 |
| 2013A | Buell Theatre Refunding | \$31,135,000 | 12/1/2023 |
| 2012C1-C3 | RTD Northeast Corridor | \$40,295,000 | 12/1/2031 |
| 2012A | Cultural Center Parking | \$5,610,000 | 12/1/2021 |
| 2010B | Wastewater/Roslyn Refunding | \$10,755,000 | 12/1/2021 |
| 2010A | Central Platte Campus | \$17,590,000 | 12/1/2030 |
| 2008A1-A3 | Webb Municipal Office Building Refunding | \$220,280,000 | 12/1/2031 |
| 2005A | Human Services Center Properties Refunding | <u>\$5,075,000</u> | 5/1/2020 |
| Total COPs | | \$367,696,673 | |

- Ask Denver voters to support an affordable housing bond issue in the fall of 2018.
- Borrow against the one-half mill already in place- without raising taxes- to generate up to \$150M to create, acquire and preserve more units.
- For an additional one-half mill (1 mill total), the pool of resources grows to \$300 million to meet the needs of even more households.
- The average homeowner would see a yearly property tax increase of about \$15.
- Implement governance structure