Housing Bond Overview

March 2018

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Questions Asked

- 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
Highly restricted uses • City- or DHA-owned property & project • DHA-operated project	Highly restricted uses • City- or DHA-owned property & project • DHA-operated project More flexible uses • Gap financing of privately-developed affordable housing permitted
IRS-imposed spend-down requirements (time)	No spend-down requirements

Guidance

- Legal
  - Legal limitations base 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

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Permitted Uses of Proceeds

	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

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Other Cities' Affordable Housing Bonds

	Amount	Tax-Exempt/Taxable	Uses
Portland	$258.4 million	Tax-exempt	• Acquisition, construction and rehabilitation of public (city-owned) rental housing
Seattle	$29 million	Taxable	• Gap Financing, • Home Ownership Subsidies • Rehabilitation, development and preservation of affordable housing by third-party developers
Austin	$65 million	Taxable	• Rental housing development (including by third-party affordable housing developers) • Home ownership and repair programs
San Francisco	$310 million	Taxable	• 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	• 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

Response to All In Denver On Affordable Housing GO

March 2018

All In Denver Proposal 12/18/2017 Updated

- 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

AID Proposal Investments

- 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.

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Revised Proposal Analysis

20 year bond maturity @ .5 Mills

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

Add New 0.5 Mill or Utilize 2A Mill

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

Issuing debt

- 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

Yr.	Projected Linkage Fee2 (A)	Property Tax Mill Revenue @ .5 mill Assessed Value x .5 (B)	Administrative Fee (8% of Revenues) (C) 8% of (A + B)	Revenue Available for Debt Service (B - C)
2017	1,133,033			
2018	2,144,988	8,288,325	(834,665)	7,453,660
2019	3,204,347	8,288,325	(919,414)	7,368,911
2018	4,305,222	8,454,092	(1,020,745)	7,433,346
2020	4,391,327	8,454,092	(1,027,633)	7,426,458
2021	4,479,153	8,623,173	(1,048,186)	7,574,987
2019	4,568,736	8,623,173	(1,055,353)	7,567,821
2022	4,660,111	8,795,637	(1,076,460)	7,719,177
2023	4,753,313	8,795,637	(1,083,916)	7,711,721
2020	4,848,380	8,971,550	(1,105,594)	7,865,955
2024	4,945,347	8,971,550	(1,113,352)	7,858,198
2025	5,044,254	9,150,981	(1,135,619)	8,015,362
2021	5,145,139	9,150,981	(1,143,690)	8,007,291
2026	5,248,042	9,334,000	(1,166,563)	8,167,437
2027	5,353,003	9,334,000	(1,174,960)	8,159,040
2022	5,460,063	9,520,680	(1,198,459)	8,322,221
2028	5,569,264	9,520,680	(1,207,196)	8,313,485
2029	5,680,650	9,711,094	(1,231,339)	8,479,754
2023	5,794,263	9,711,094	(1,240,429)	8,470,665
2030	5,910,148	9,905,316	(1,265,237)	8,640,079
2031	6,028,351	9,905,316	(1,274,693)	8,630,622
2024	6,148,918	10,103,422	(1,300,187)	8,803,235
	103,683,020	191,613,116	(23,623,691)	167,989,425

= $271.6m

Annual Projected Total	Annual Projected Total	Annual Projected Total
-No Bonding-	-One Bond-	-Three Bonds-
Dedicated Affordable Housing Fund	Dedicated Affordable Housing Fund	Dedicated Affordable Housing Fund
1,133,033	1,133,033	1,133,033
9,598,648	2,144,988	2,144,988
10,573,258	102,944,347	42,880,347
11,738,569	4,305,222	4,305,222
11,817,785	4,391,327	34,023,326
12,054,141	4,479,153	4,479,153
12,136,557	4,568,736	4,568,736
12,379,288	4,660,111	34,292,111
12,465,034	4,753,313	4,753,313
12,714,335	4,848,380	4,848,379
12,803,545	4,945,347	4,945,347
13,059,616	5,044,254	5,044,254
13,152,430	5,145,139	5,145,139
13,415,479	5,248,042	5,248,042
13,512,043	5,353,003	5,353,002
13,782,284	5,460,063	5,460,062
13,882,749	5,569,264	5,569,264
14,160,404	5,680,650	5,680,649
14,264,928	5,794,263	5,794,262
14,550,226	5,910,148	5,910,147
14,658,973	6,028,351	6,028,350
14,952,153	6,148,918	6,148,917
271,672,445	203,423,020	202,623,020

2018 through 2038 20-Year Comparison			
	Pay-As-You-Go	One Bond Issue	Three Bond Issues
Debt Proceeds	-	101,250,000	101,250,000
Cost of Issuance	-	755,000	1,155,000
Net Debt Proceeds Available for Housing	-	100,495,000	100,095,000
Mill Levy Revenue	191,613,116	-	-
Linkage Fee Revenue	103,683,020	103,683,020	103,683,020
Less Administrative Fee	(23,623,691)	Already included	Already included
Affordable Housing Fund	271,672,445	204,178,020	203,778,020
Par Amount of Bonds	-	101,250,000	101,250,000
Interest Cost	-	59,241,171	70,158,412

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Appendix

Appendix- State Statute

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; …

Agenda

- 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

Debt Management Principles

- 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.

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GO Policy

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

Key Conditions

- 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

Defining Capacity

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

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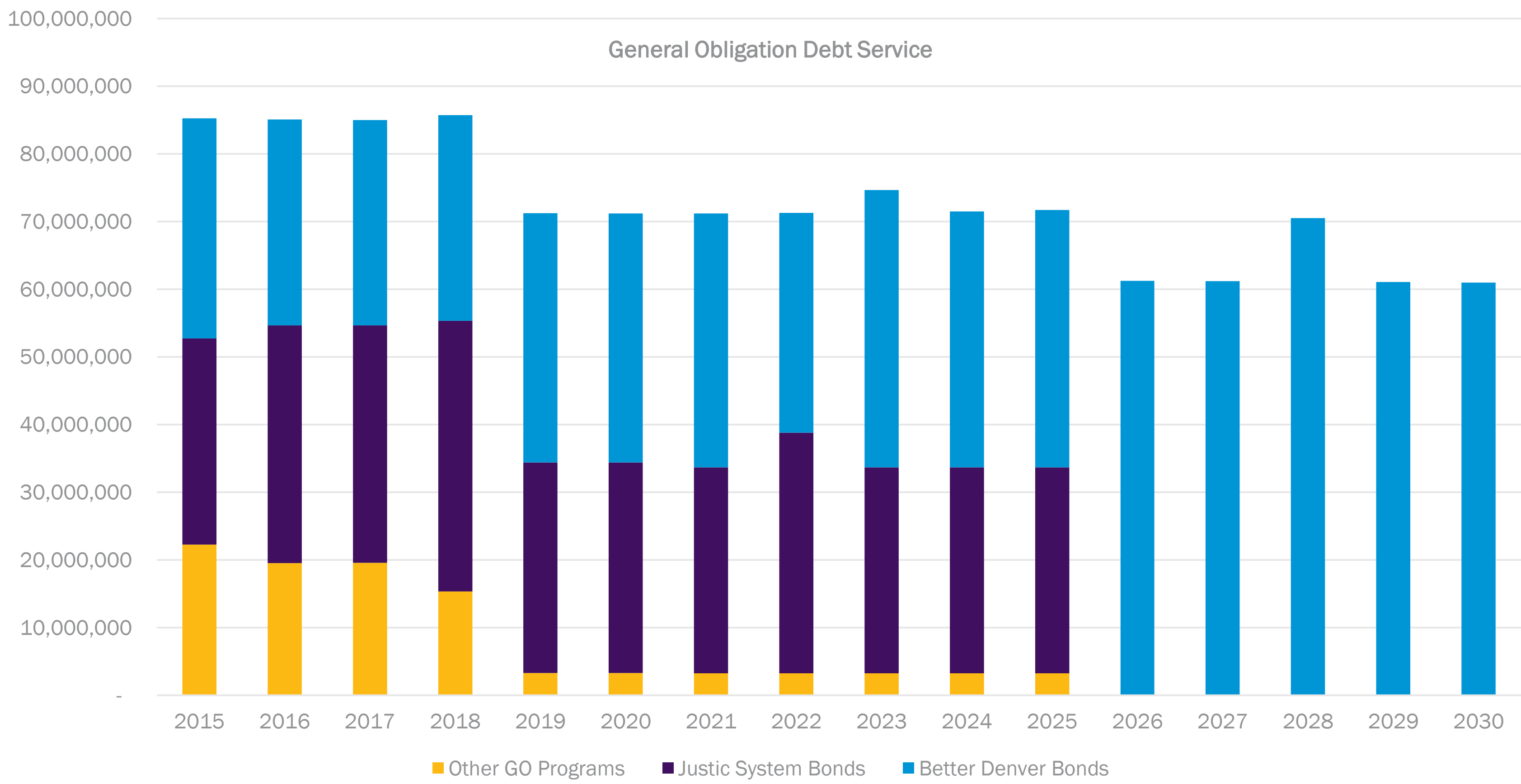
2017 General Obligation Bond

- 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



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Certificates of Participation

- 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.

Current COPs

Series	Issuance	Outstanding Principal	Final Maturity
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	$5,075,000	5/1/2020
Total COPs		$367,696,673	

All In Denver Proposal Updated

- 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