



City of Seattle

Edward B. Murray, Mayor

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To: Lisa Herbold, Legislative Aide to Councilmember Licata
Traci Ratzliff, Council Central Staff
Dan Eder, Council Central Staff

From: Jeanette Blankenship, City Budget Office
Lindsay Masters, Office of Housing

Subject: Bond-Financed Models for Five Affordable Housing Project Scenarios

This memo is in response to a request for additional information on five scenarios that assume private financing and 4% tax credits, with City/County funding and housing bond financing used as gap filler. For purposes of simplicity, gap funding is identified as City funds only; County funds could be exchanged for City funds if they became available for a given project. Other funding sources could also be pursued as gap fillers, but are not modeled given the limited resources and assumption that if those resources are used in these projects, gaps may be created elsewhere.

Below are the five options that were requested to be modeled using the included assumptions:

Option 1: New Construction Workforce Housing, public land. 50% of the units at 50% AMI and 50% of the units at 60% AMI affordability. 100 units.

Option 2: New Construction for Extremely Low Income Workforce, public land. Also include providing the buy-down from 50% AMI rents to 30% rents. How much more city, county funding would be needed? 100 units.

Option 3: New Construction Homeless and Low Income Housing, public land. 50% of the units at 30% AMI and 50% at 50% AMI. Assume rent subsidies for the homeless units. 100 units.

Option 4: Acquisition and Preservation of Existing Low Income Housing. Include rehab assumptions. Assume 100% of the units at 60% AMI and below. 50 units privately owned project to be acquired by a nonprofit.

Option 5: Acquisition and Preservation of Existing Mixed Income Housing. Assume 50% of the units at 60% AMI and below and 50% of the units at 80% AMI. 50 units privately owned project to be acquired by a nonprofit. Assume efforts to minimize displacement of existing residents. Likely requires split unit fraction for tax credits (only units with households with incomes at/or below 60% AMI would be eligible).

Summary of Capital Financing Needed for Five Options

	Option 1	Option 2	Option 3	Option 4	Option 5
	New Construction Workforce	New Construction ELI	New Construction Homeless*	Acq Rehab @ 60% AMI	Acq Rehab @60/80% AMI
City Capital Needed to Develop Project	\$ 11,869,740	\$ 13,732,367	\$ 16,016,246	\$ 5,871,855	\$ 5,874,665
(1) Debt Service Subsidy Needed if Fully Financed with City Bonds					
Annual Bond Debt Service	\$ 835,168	\$ 966,224	\$ 1,126,920	\$ 413,150	\$ 413,348
Annual Debt Service Supported By Rents	\$ 79,187	\$ 0	\$ 0	\$ 39,146	\$ 149,879
Annual Gap in Debt Service	\$ 755,981	\$ 966,224	\$ 1,126,920	\$ 374,004	\$ 263,469
Total 20 Year Gap in Debt Service	\$ 15,119,613	\$ 19,324,482	\$ 22,538,406	\$ 7,480,087	\$ 5,269,380
(2) Capital Subsidy if Small Portion Financed with City Bonds Fully Supported by Rents					
Up front capital subsidy	\$ 10,750,000	NA	NA	\$ 5,350,000	NA
Portion financed with City bonds	\$ 1,119,740	NA	NA	\$ 521,855	NA

*assumes other funding for rental subsidy and supportive services

The chart above illustrates the total gap funding needed to fully finance each project (City Capital Needed to Develop Project). Two approaches were tested with each option: (1) Fully financing the gap with City bonds; and (2) Financing only the amount of City bonds that the project could support with rents, and financing the rest with other capital subsidies. Using the first approach, each project creates a substantial annual debt service liability unsupported by the project that would need to be subsidized with other City funds over the 20-year term of the bond. Using the second approach, only two of the five options were able to sustain substantial enough payments to fully support a meaningful amount of City bonds (Option 1 and Option 4). In both of these scenarios, there remains a significant capital subsidy needed up front. Given that none of the options can support much debt service because the rent levels charged will not provide sufficient funding to make the payments, general fund revenue would need to be diverted to support the annual debt service subsidy.

Option 1:

New Construction Workforce Housing, public land. 50% of the units at 50% AMI and 50% of the units at 60% AMI affordability. 100 units.

The total project estimated cost is \$27.9 million, of which \$16 million is assumed to be covered through private debt, 4% tax credits and a deferred developer fee. The project needs \$11.9 million in capital from the City to fill the gap, but it could only support \$79,187 in annual debt service payments, compared to \$835,168 needed to service a bond of that size (at 3.5% interest over 20 years). Other fund sources would be needed to cover the \$755,981 annual gap for 20 years for this one 100-unit project. The total debt service payments not supported by project rents over 20 years would be \$15.1 million.

The alternative approach of blending bonds with other funds would require \$10.75 million in OH or other funds that do not require any payments, compared to \$1.1 million in bonds, which would be fully supported by rents. Payments on the \$10.75 million loan would be fully deferred for the life of the loan.

Option 2:

New Construction for Extremely Low Income Workforce, public land. Also include providing the buy-down from 50% AMI rents to 30% rents. How much more city, county funding would be needed? 100 units.

The total project estimated cost is \$27.9 million, of which \$14.1 million is assumed to be covered through private debt, 4% tax credits and a deferred developer fee. The project needs \$13.7 million in capital from the City to fill the gap, but it cannot support any annual debt service payments, compared to \$966,224 needed to service a bond of that size (at 3.5% interest over 20 years). Other fund sources would be needed to cover the \$966,224 annual gap for 20 years for this one 100-unit project. The total debt service payments over 20 years would be \$19.3 million.

Option 3:

New Construction Homeless and Low Income Housing, public land. 50% of the units at 30% AMI and 50% at 50% AMI. Assume rent subsidies for the homeless units. 100 units.

The total project estimated cost is \$27.9, of which \$11.9 million is assumed to be covered through private debt and 4% tax credits. The project needs \$16 million in capital from the City to fill the gap, but it cannot support any annual debt service payments, compared to \$1.1 million needed to annually service a bond of that size (at 3.5% interest over 20 years). Other fund sources would be needed to cover the \$1.1 million annual gap for 20 years for this one 100-unit project. The total debt service payments by the City over 20 years would be \$22.5 million.

Option 4:

Acquisition and Preservation of Existing Low Income Housing. Include rehab assumptions. Assume 100% of the units at 60%AMI and below. 50 units privately owned project to be acquired by a nonprofit.

The total project estimated cost is \$13.5 million, of which \$7.6 million is covered through private debt, 4% tax credits and a deferred developer fee. The project needs \$5.9 million in capital from the City to fill the gap, but it could only support \$39,146 in annual debt service payments, compared to \$413,150 needed to service a bond of that size (at 3.5% interest over 20 years). Other fund sources would be needed to cover the \$374,004 annual gap for 20 years for this one 50-unit acquisition/rehab project. The total debt service payments not supported by project rents over 20 years would be \$7.5 million.

The alternative approach of blending bonds with other funds would require \$5.35 million in OH or other funds that do not require any payments, compared to \$521,855 in bonds, which would be fully supported by rents. Payments on the \$5.35 million loan would be deferred for the life of the loan.

Option 5:

Acquisition and Preservation of Existing Mixed Income Housing. Assume 50% of the units at 60% AMI and below and 50% of the units at 80% AMI. 50 units privately owned project to be acquired by a nonprofit. Assume efforts to minimize displacement of existing residents. Likely requires split unit fraction for tax credits (only units with households with incomes at/or below 60% AMI would be eligible).

The total project estimated cost is \$13.5 million, of which \$7.6 million is covered through private debt, 4% tax credits and a deferred developer fee. The project needs \$5.9 million in capital from the City to fill the gap, but it could only support \$149,879 in annual debt service payments, compared to \$413,348 needed to service a bond of that size (at 3.5% interest over 20 years). Other fund sources would be needed to cover the \$263,469 annual gap for 20 years for this one 50-unit acquisition/rehab project. The total debt service payments not supported by project rents over 20 years would be \$5.3 million.