

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Minutes of the Board of Trustees' Special Meeting of October 3, 2019

OPEN SESSION

A. CALL TO ORDER - 6:31 p.m.

B. ROLL CALL

Board Members: Mr. John Baker - Present
 Mr. Eddie Flores - Present
 Ms. Daina Lujan - Present
 Mrs. Patricia Murray - Present
 Mrs. Mina Richardson - Present
 Ms. Kristie Poon, Student Board Member -
 Excused

Cabinet Members: Dr. Shawnterra Moore, Superintendent -
 Present
 Mr. Keith Irish, Assistant Superintendent,
 Educational Services and Categorical
 Programs - Present
 Mr. Ted O, Assistant Superintendent,
 Business Services - Present
 Dr. Jay Spaulding, Assistant Superintendent,
 Human Resources and Student Services -
 Present

C. PLEDGE OF ALLEGIANCE

D. COMMUNICATIONS - None

1. BUSINESS SERVICES

a. Workforce Housing Financing

In this Board study session, representatives from DCG Strategies, RBC Capital, and Isom Advisors provided more detailed information on Workforce Housing financing options for the District.

Superintendent Shawnterra Moore offered some background information from previous Board meetings where workforce housing was discussed.

Five Phases

In October 2018, DCG presented these phases for developing workforce housing to the Board and community.

- Phase 1 - Market assessment
- Phase 2 - Site assessment
- Phase 3 - Financing and development
- Phase 4 - Entitlements and programming
- Phase 5 - Construction and pre-leasing

At the January 17, 2019 meeting, the Board was informed that a market and land use analysis was conducted on 2525 Wexford Avenue (formerly the Foxridge site) for the potential workforce housing location. It was determined that the property had the characteristics needed for this project. At that time, the market and site assessments (Phases 1 and 2) had been completed.

At the February 28, 2019 meeting, the Board approved the DCG Strategies Workforce Housing agreement to move forward with Phase 3. This phase includes project financing, development feasibility, call for developers, statement of qualifications, request for proposals, and selection of the developer.

At the July 18, 2019 meeting, the Board was presented with preliminary information on the development's physical and financial feasibility findings. It was determined that the proposed project can be feasibility developed on the site. Following this meeting, the Board had additional financing questions and requested this study session.

Christen Villalobos, a bond underwriter at RBC Capital, and Makiko Sato, of ISOM Advisors, reviewed the following:

Meeting objectives

- Provide the Board with a more in-depth and user-friendly explanation of the financial feasibility analysis for the workforce housing project.
- Discuss the sensitivity of the analysis to various assumptions.
- Expand on answers to finance-related questions asked by the Board.

Ms. Sato reviewed self-financing options.

Privatized Project Financing/Lease Revenue Bonds.

- Supported solely or principally from the net operating income of the workforce housing project.
- Likely to require additional contributions from the District either on an upfront or ongoing basis.
- Credit is based on the financials of the project (usually higher borrowing rates than GOBs and COPs and more restrictive structuring options).
- No voter approval required.

Certificates of Participation COPs

- Supported by the District's General Fund; expectation would be that the net operating income of the workforce housing project would

- cover all or a significant portion of the COP payments.
- May require additional contributions from the District either on an upfront or ongoing basis.
- No voter approval required.

General Obligation Bonds (GOBs)

- Supported by property taxes.
- Net operating income of the workforce housing project may provide additional funding for the District's General Fund.
- Requires voter approval.

Ms. Sato noted that GOBs are the most advantageous for the District. The San Mateo County Community College District started their employee housing project with COPs and paid them off with GOBs. The District may utilize a combination of GOBs and one of the other financing options if desired. In addition to the financing options listed, the District can partner with a developer to finance the project, but may have less input into the operations of the workforce housing with a developer based financing approach.

Blake Peters, of DCG Strategies, reviewed net revenue assumptions for workforce housing units. The net revenue was calculated based on unit rent from 55% to 80% of Area Median Income (AMI). AMI gauges affordability. He said rents are determined based on HUD rents and will increase over time with the cost of living.

Ms. Sato said if the entire site is developed there would be 132 units. Based on \$450K per unit, the total cost would be \$59.4M.

Scenario #1: Base Case Scenario

- Projected new revenue versus COP repayment.
- Assumes project costs of \$450K per unit and approximately 3.0% escalation in net revenue over the next 30 years.
- Projected shortfall in first four years totaling \$565K.
- Positive annual cash flow in future years of approximately \$75K in 2026 to \$470K in 2052.

Trustee Mina Richardson noted a first year teacher earns about \$57K and asked if the project would be affordable at that salary. Mr. Peters said there is flexibility with the affordability range. DCG gets rental survey information from teachers or the District's total employees and caters to those salary levels. An employee earning entry level income could rent one or two bedrooms. He confirmed the salaries per unit are based on the collective household income and they have considered Classified salaries as well.

Trustee Richardson asked how long it would take for new teachers to save enough money to qualify for a local market rate property. Mr.

Peters replied it depends on the individual's ability to save for the down payment. He said market rental rates in this area are \$2,500 for a one bedroom, \$3,000 for a two bedroom, and \$3,400 for a three bedroom unit. He stated that workforce housing is a stepping stone approach to home ownership.

Vice President Murray inquired about the length of time an employee could remain in the workforce housing development. Mr. Peters said the District would use a non-profit property management firm to handle compliance. Trustee Daina Lujan said the length of stay is usually five years, while President John Baker said he has heard it is seven years.

Cindy Alger, an audience member and local realtor, said the 70-80% AMI rental amounts are market rates in this area and are not affordable rates. President Baker said the rates are probably based on the whole Bay Area. Ms. Alger noted that \$1.4M is high for homes in this area.

President Baker noted that the project assumes a mix of 1-2-3 bedrooms and asked about increasing the number of two bedroom units. Mr. Peters said this is the point where the District is now, when adjustments can be made. President Baker asked if all units would be on line all at once or would be staggered in phases. Mr. Peters replied that construction could be done in multiple phases with multiple bond issuances also possible. President Baker asked and Mr. Peters confirmed that property taxes are factored in.

Employee Jolene Malfatti noted that SSF blogs from community members express concerns the City is being over developed and asked how this would financially impact the District if it decides to move forward with the project. Mr. Peters said this has not been seen in recent years are there are few vacancies on the peninsula. Vice President Murray said she heard SSF is creating more jobs than living spaces. Ms. Alger said there is a 30% vacancy in the housing project, with 160 affordable units, at Grand Avenue and Airport Blvd.. Mr. Peters said there may be 2,000-3,000 applicants for those units and the rents would not match up with teacher salaries. Ms. Alger said more units lead to reduced rents, which she thinks would happen with the District's project also.

Ms. Sato stated that the District can eliminate the shortfall in the initial years by charging higher rents.

Scenario #1-A: Reducing subsidy in initial years

- Projected new revenue versus COP repayment.
(Same costs and escalation as in scenario #1)
- Lower subsidy/higher rents in initial years would cover the projected shortfall.
- To eliminate shortfall in the first year, all units would need to be 70-80% AMI.

- 55-60% AMI units would be phased in during years two to four.
- (Future net positive years remain the same.)

Trustee Richardson said affordable rents need to be defined. Mr. Peters said the project could be contentious based on how it is perceived by the community. It is different than affordable housing and is termed workforce housing.

Vice President Murray asked and Mr. Peters confirmed that the difference in average median salaries for teachers vs. Classified personnel was taken into consideration. He said some districts refer to these projects as teacher housing. Dr. Moore confirmed it is for District employees and not specifically for teachers. Ms. Alger asked if two teachers could live in one unit if their combined salaries exceeded the AMI threshold. Mr. Peters said the next phase to determine is programming and entitlements. President Baker noted that two teacher's salaries combined is approximately 80% of median income in this County.

Scenario #1-B: Lower rental escalation

- Projected new revenue versus COP repayment.
- Maintain project costs of \$450K per unit, but reduce rental escalation to approximately 1.5%% per year.
- Negative annual cash flow projected in future years of approximately \$335K in 2022 to \$2,440M in 2052.
- Negative annual cash flow requires a contribution from the General Fund or other sources to meet the COP debt service requirements.

Ms. Sato said a 3% rental escalation per year is assumed and the financing impact if it were only 1-2% could lead to a negative cash flow. Trustee Daina Lujan requested information on whether the yearly cost of living increases and step and column increases result in approximately a 3% increase for employees. President Baker asked Dr. Jay Spaulding to provide the median Classified and Certificated District salaries.

Scenario #2

- Projected new revenue versus COP repayment.
- Higher project costs of \$500K per unit would mean cash shortfalls throughout the COP repayment terms even with 3.0% annual escalation in net revenue.
- Projected shortfall is largest in the earlier years totaling over \$2M in initial six years.
- Negative annual cash flow projected in future years of approximately \$86K in 2028 to \$190K in 2052.
- (Requires same contribution from General Fund.)

Ms. Villalobos said the current financing options are low, but with

increased construction costs and rental income less than the assumed 95% occupancy, things can shift and costs could increase. These are all projections which no one can guarantee.

Trustee Richardson said the projections are only the first step and seed money is needed to get the project going. Mr. Peters said it comes down to timing and community input and the District can hold off until Bond issuance. He said the District needs to decide whether to move forward with financing secured before entitlements or move the entitlements forward before securing financing. He and Ms. Sato agreed that community engagement is needed before debt issuance. President Baker expressed concern with construction bids coming in at 5-10% over estimates and said \$500K per unit is more realistic. Mr. Peters replied that most increases are with the higher density projects. The lower density project type is advantageous for the District and keeps construction costs down. Also, the District already owns the land. It is more cost effective to build as a full project. The required environmental impact report (EIR) for the project is expensive and he would not do it for only half of the project. Mr. Peters said that based on the density, construction costs, and the EIR, he is suggested building on the full seven acres.

Ms. Sato reviewed the remaining two scenarios which several school districts in the County are considering.

Scenarios #3 and #4: Funding from GOBs

- Benefit to the general fund.
 - If the District funds all or a portion of the workforce housing from GO bonds, the District should be able to deposit the net revenues into the general fund.
 - Net revenues are projected to be \$2M per year, rising to \$6M per year in 2052.
- Meeting program objectives.
 - Funding at least a portion of the project from GO bond proceeds may allow the District to increase rental subsidies (further lower rents for employees).
- Ability to fund other projects.
 - A GO bond measure can also help address other capital facility improvement needs throughout the District.

Key Takeaways

- No need to decide on financing method at this time.
 - The purpose of the analysis is to determine whether there is a path to feasibly develop the project from a financial perspective – not to make a final decision on which financing method to use.
- Keep in mind that the analysis is sensitive to assumptions.
 - Interest rate environment, construction costs, rental revenue and operating expense and other assumptions can impact the

- financial feasibility of the project.
 - Financial risk associated with the project will continue through the COP repayment term.
- Workforce housing is an evolving field with new financial, legal, and policy developments.

Trustee Richardson asked if GOBs service fees are different for the City vs. the District and if they are fixed or variable rates. Ms. Sato replied that schools districts have fixed rate GOBs for projecting tax rates. Trustee Richardson asked if they could be changed to a variable interest rate. Ms. Sato said it would remain fixed throughout the life of the bond, but if the interest rate environment goes down, the bonds could be refinanced at a lower rate.

Bond Program Overview

Bond Authorizations by Voters

- June 1997 bond - \$40M, 2023 final repayment
- November 2010 bond - \$162M, 2041 final repayment
- Total remaining debt service is \$273M with \$167.3M outstanding with a low repayment ratio.

Bond and Assessed Value History

- District's tax base has nearly doubled since 2006.
- District's gross bonding capacity is approximately \$563.1M (2.50% x assessed value).
- District's outstanding G.O. bond debt is approximately \$167.3M.
- District's net bonding capacity, or current debt limit, is approximately \$395.8M.

Debt Service Schedule

- Bond debt service increased by about 3.5% per year.
- The District 1997 bond authorization is set to be fully repaid in 2023.

Tax Rates

- Rates are projected to stay relatively level.
- The 2016 GO financing was structured to keep combined tax rates below \$50 per \$100K in assessed value.

San Mateo County Bond Elections

- San Mateo voters have been very supportive of GOBs.
- SSFUSD's 2019-20 tax rate is low at \$38.10 compared to most other districts in the County.

Ms. Villalobos said that for COPs supported with General Fund financing there is an optional redemption pay off with GOB proceeds.

Trustee Richardson said if there was a thought to not financing due to mass construction in the City and asked if the District can negotiate with other districts building workforce housing. Mr. Peters said many Bay

Area developers are constructing luxury apartments or condos. The District could make a deal with a developer of a mixed income apartment project so they could buy units and restrict them for workforce housing, but then they would only be buying units from someone else. President Baker asked if a developer would expect the District to subsidize the cost of the units, including the cost of land acquisition. Mr. Peters confirmed the cost could double. Trustee Richardson said the government uses blocks of hotel rooms for employee housing and this might be an option if the District cannot afford to build workforce housing. She asked how long employee housing would be utilized. Mr. Peters said an extended hotel stay is considered corporate housing and is a long term investment. Since the District already owns the land and is half way there, it is only a matter of building on it.

Vice President Murray asked about County grants. Mr. Peters replied they are looking at every grant opportunity. Ms. Villalobos suggested grants from tech companies in the area. President Baker said he is sometimes reluctant to over rely on corporations.

President Baker asked that scenarios #3 and #4 be calculated based on the higher cost of \$500K per unit. Mr. Peters said \$450K is an all in number and includes soft costs, engineering, architecture, and EIR, which makes it pretty accurate. Building on the entire site is efficient. President Baker asked and Mr. Peters confirmed that is a public work project and assumes prevailing wages.

Trustee Richardson asked if the entire property is developed and the site is changed from an 'S' zone to residential, would the District need to pay property taxes. Mr. Peters will check on this.

President Baker said he would like to see an acre or so of open space in the project design. Mr. Peters said the community might oppose the project for one main reason, that of no open space. Ms. Alger stated that the property was zoned to maintain educational sites and not property sites. Mr. Peters said open space loss is real and they need to address and design for it. The design needs to be updated before presenting it to the community. President Baker said the larger question to discuss with the community is if a park is included in the design, would the number of units need to be reduced or be built as three stories in part of the development. Mr. Peters noted that most developers show a massive, densely filled-in area and then reduce the plan for good faith. He said it is important to put the best foot forward for the community.

Ms. Sato asked whether the childcare facility will be rebuilt and noted there could be some potential tax law complications. Mr. Peters said it is unknown if it could be included in the GOBs. President Baker asked if it was set up as a childcare center vs. a private provider, would it take away the tax implications because it would be a District facility.

Trustee Lujan said the project could change in six months and she wants community input with a new design that includes green space. Mr. Peters added that the City is adamant about a strategic plan for community engagement, which is the next step.

President Baker stated that if a bond measure is chosen, it would need to wait until the 2020 election.

Ms. Sato said a survey would be a way to gauge how the community might vote on the project.

Vice President Murray said there is a way to share information with the community and let them know this is about the students and housing/retaining teachers to provide continuity of staff. Ms. Alger said the teachers, which the District would be subsidizing, would only live in the development for five to seven years, they buy a home across the bay. To retain teachers, she suggested building a townhouse community with units they could buy in to, which would invest them in the District. Trustee Lujan told Ms. Alger her comments are very well received, but she thinks the Board would decide on that area of the project down the road.

President Baker concluded the meeting by acknowledging DCG has the Board's feedback on items to bring back for the next workforce housing discussion.

ADJOURNMENT - 7:53 p.m.