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URBAN FUTURES | Incorporated



South San Francisco Unified School District

Workforce Housing Financing Options

October 3, 2019



1470 Maria Lane, Ste. 315 | Walnut Creek, CA 94596
455 Hickey Blvd, Ste. 515 | Daly City, CA 94015

Objectives



Board Study Session Goals

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- ❖ In our board study session tonight, our goal is to:
 - 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 during the July board meeting.

Financing Options for Employee Housing



Workforce Financing Options

There are a number of options to finance workforce housing

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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.

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.

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 and more restrictive structuring options).
- No voter approval required.

*The District may utilize a combination of GOBs and one of the other financing options if desired.

**In addition to the financing options above, the District can partner with a developer to finance the project. District may have less input into the operations of the workforce housing with a developer based financing approach.



Net Revenue Assumptions

Workforce Housing Units at 55% to 80% AMI

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- Net revenue was calculated based on information provided by DCG Strategies based on unit rent from 55% to 80% Area Median Income (AMI) as shown below.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT WORKFORCE HOUSING PROJECT - 132 UNITS May 16, 2015 DCG Strategies Analysis Utilizing Affordable Rents for Educators and Staff Iteration 1									
Workforce Housing Parameters									
Unit Type	# of Units @ AMI	Gross Monthly Rent @55% AMI	Gross Monthly Rent @60% AMI	Gross Monthly Rent @70% AMI	Gross Monthly Rent @80% AMI	Total Monthly Revenue	Operations & Maintenance	Net Monthly Revenue	
1 Bedroom	9	\$1,512				\$13,608	-\$3,402	\$10,206	
	18		\$1,650			\$29,700	-\$7,425	\$22,275	
	27			\$1,925		\$51,975	-\$12,994	\$38,981	
	6				\$2,200	\$13,200	-\$3,300	\$9,900	
2 Bedroom	9	\$1,815				\$16,335	-\$4,084	\$12,251	
	18		\$1,980			\$35,640	-\$8,910	\$26,730	
	27			\$2,310		\$62,370	-\$15,593	\$46,778	
	6				\$2,640	\$15,840	-\$3,960	\$11,880	
3 Bedroom	2	\$2,096				\$4,192	-\$1,048	\$3,144	
	4		\$2,287			\$9,148	-\$2,287	\$6,861	
	5			\$2,668		\$13,340	-\$3,335	\$10,005	
	1				\$3,050	\$3,050	-\$763	\$2,288	
	132								
						Monthly: \$268,398	(\$67,100)	\$201,299	
Total Very Low/	20	15%				Annually: \$3,220,776	(\$805,194)	\$2,415,582	
Total Mod	112	85%				Adj. Annually: \$3,059,737			
Annual Rent Increase		3.00%							
Initial O&M Percentage		25.0%							
Annual O&M Escalation		2.00%							
Other Income		0.00%							
Est. Occupancy Rate:		95.00%							
Workforce Housing Construction Costs & Financing									
Construction Type	2/3storyFrame		Total Project Costs	\$ 59,400,000					
Avg. Cost per Unit/	\$450,000		External Contribution	<u>\$0</u>					
Average Interest Rate	n/a		Amount Financed	\$59,400,000					
Financing Type (COP/GO)	COP & GO								



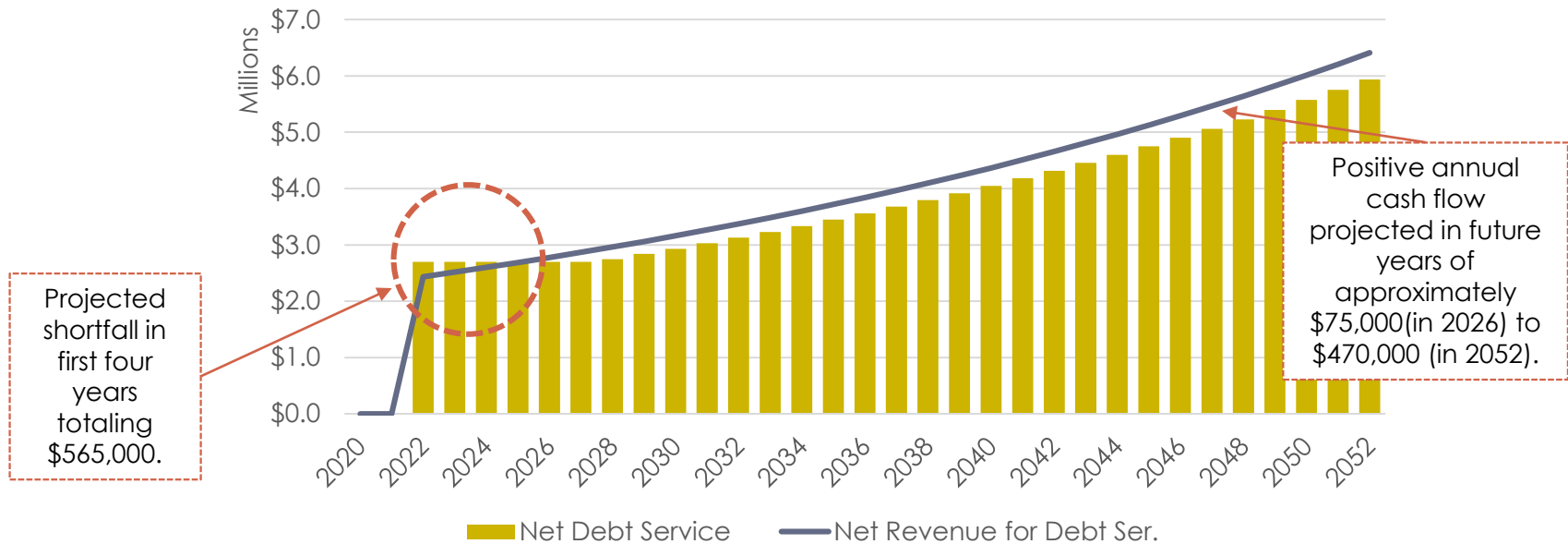
Scenario #1: Base Case Scenario

\$450,000 Per Unit Cost / \$59,400,000 Total Cost

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- ❖ Our base case scenario assumes project costs of \$450,000 per unit and approximately **3.0% escalation** in net revenue over the next 30 years.

Projected Net Revenue versus COP Repayment



Projected shortfall in first four years totaling \$565,000.

Positive annual cash flow projected in future years of approximately \$75,000 (in 2026) to \$470,000 (in 2052).

*All figures are preliminary estimates based on current market conditions, general construction costs, rental revenue and operating expense estimates provided by DCG Strategies.

Scenario # 1-A: Reducing subsidy in initial years

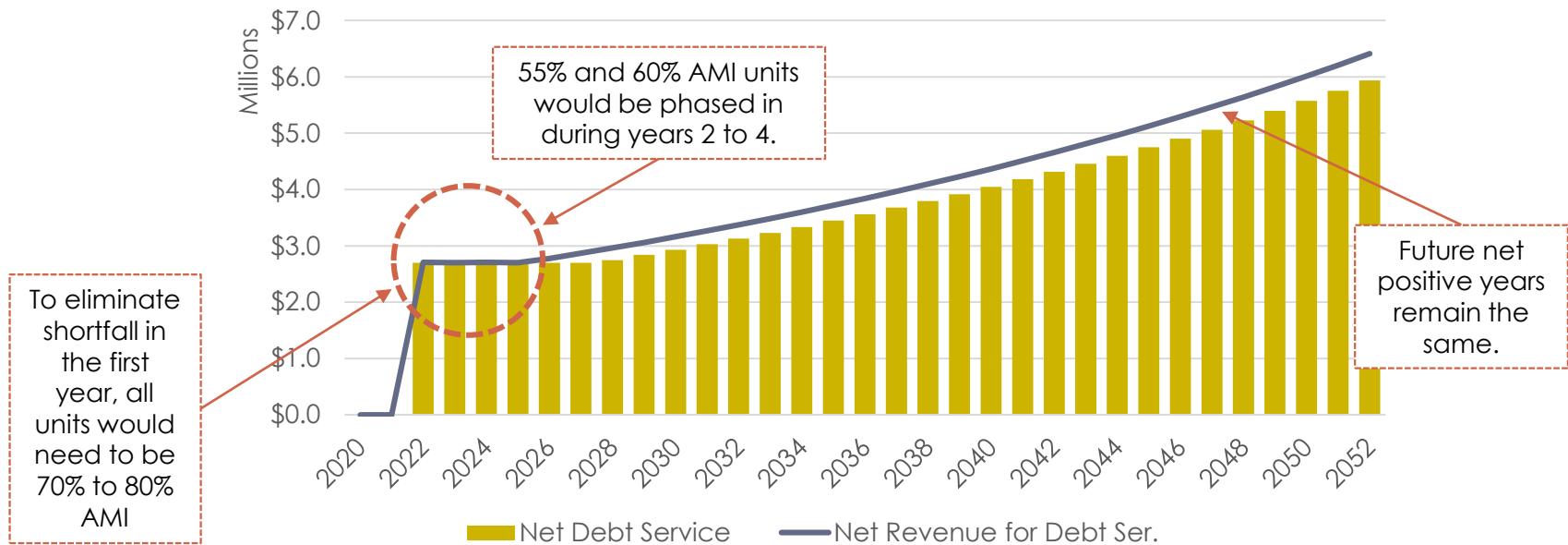


\$450,000 Per Unit Cost / \$59,400,000 Total Cost

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- ❖ Maintain project costs of \$450,000 per unit and approximately 3.0% escalation in net revenue after the initial four years.
- ❖ Lower subsidy / higher rents in initial years would cover the projected short fall in earlier years.

Projected Net Revenue versus COP Repayment



*All figures are preliminary estimates based on current market conditions, general construction costs, rental revenue and operating expense estimates provided by DCG Strategies.



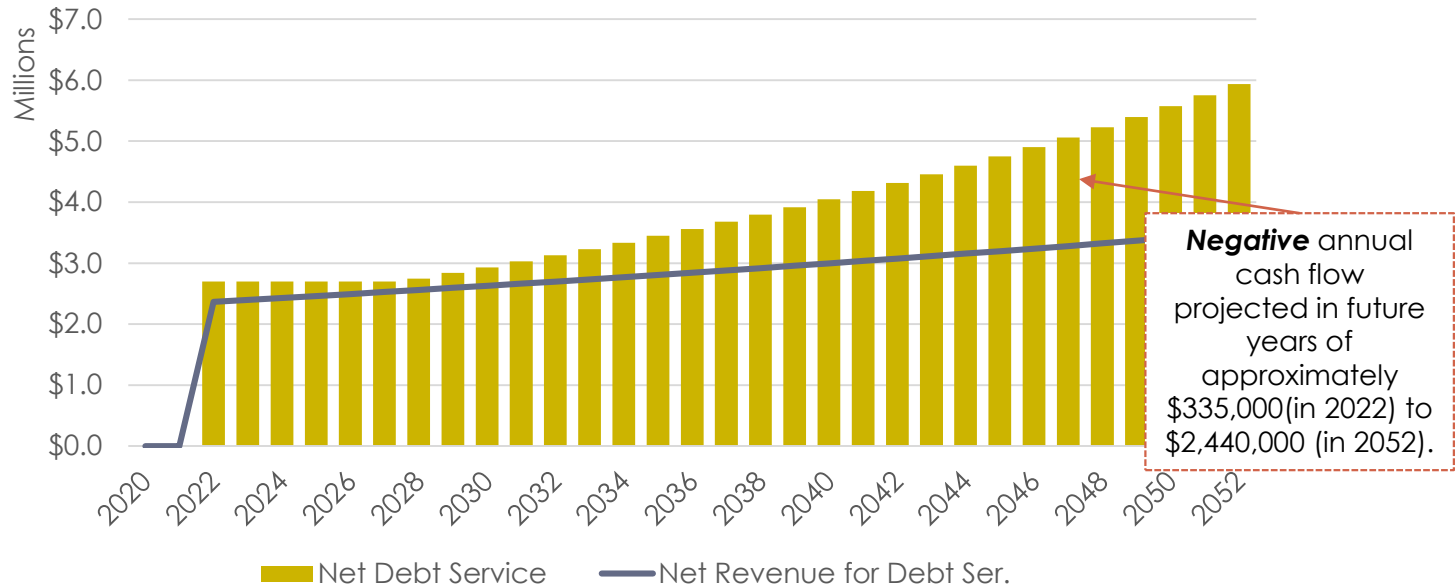
Scenario # 1-B: Lower rental escalation

\$450,000 Per Unit Cost / \$59,400,000 Total Cost

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- ❖ Maintain project costs of \$450,000 per unit but reduce rental escalation to 1.5% per year.

Projected Net Revenue versus COP Repayment



- “Negative annual cash flow” requires a contribution from the general fund or other sources to meet the COP debt service requirements.

*All figures are preliminary estimates based on current market conditions, general construction costs, rental revenue and operating expense estimates provided by DCG Strategies.

Scenario #2

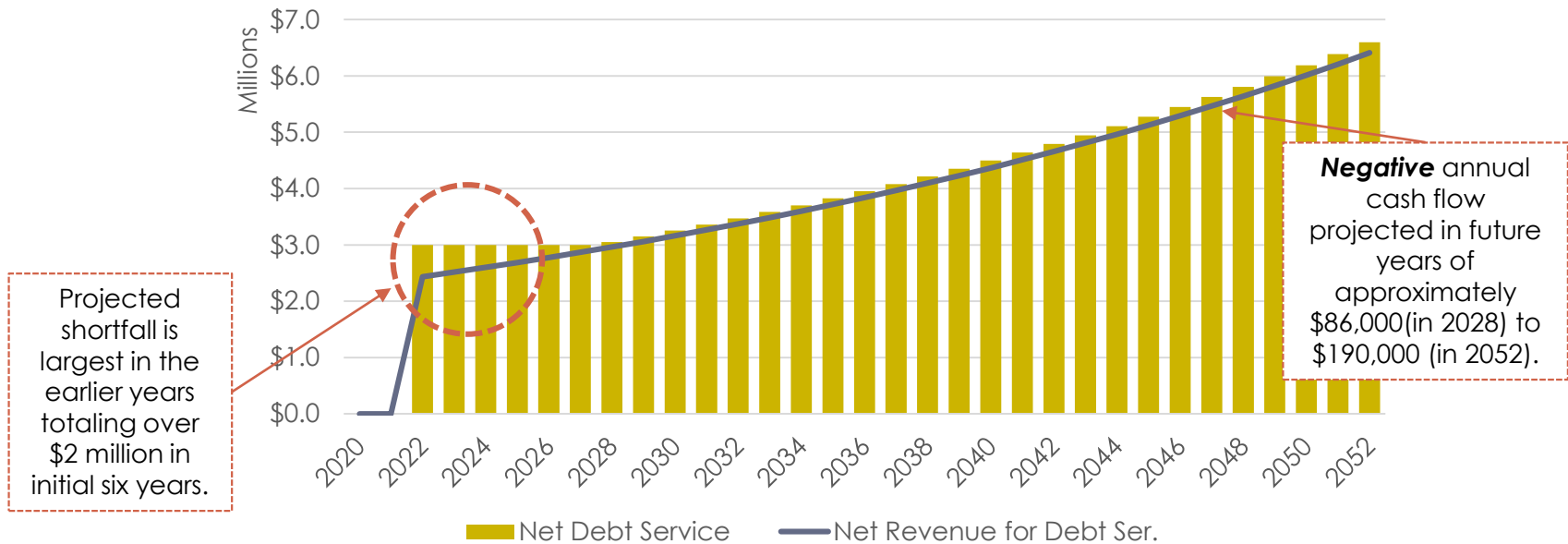


\$500,000 Per Unit Cost / \$66,000,000 Total Cost

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- ❖ Higher project costs of \$500,000 per unit would mean cash shortfalls throughout the COP repayment term even with 3.0% annual escalation in net revenue.

Projected Net Revenue versus COP Repayment



- “Negative annual cash flow” requires a contribution from the general fund or other sources to meet the COP debt service requirements.

*All figures are preliminary estimates based on current market conditions, general construction costs, rental revenue and operating expense estimates provided by DCG Strategies.

Scenario #3 and Scenario #4



Advantage of funding employee housing from GOBs

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- ❖ Some of your neighboring school districts are funding employee housing with general obligation bonds:
 - 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 \$2 million per year, rising to \$6 million 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 general obligation bond measure can also help address other capital facility improvement needs throughout the District.

Key Takeaways



Path to Financial Feasibility

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- No need to decide on financing method at this time.
 - ✓ The purpose of our 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.

Bond Program Overview



History of Bond Authorizations

District voters have approved two prior bond measures

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Election Date	Authorized Amount	% Support	Final Repayment
June 1997	\$40,000,000	74.6% (66.7% required)	2023
November 2010	\$162,000,000	77.5% (55.0% Required*)	2041

Source: Ed-Data

- * Proposition 39 bonds can be approved with the support of 55.0% of voters on a regularly scheduled election date.
- * Unified school districts must be able to project that tax rates under **each Proposition 39 bond authorization** will be at or below \$60 per \$100,000 in assessed value.

District Bond & Assessed Value History



District's tax base has nearly doubled since 2006

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SSFUSD Historical Assessed Value

Fiscal Year Ending	Total Value	% Change
2006	\$11,511,350,739	N/A
2007	12,622,770,658	9.65%
2008	13,787,630,184	9.23%
2009	16,369,087,299	18.72%
2010	15,311,131,760	-6.46%
2011	15,000,117,817	-2.03%
2012	15,184,957,969	1.23%
2013	15,365,519,350	1.19%
2014	15,726,422,339	2.35%
2015	16,397,682,567	4.27%
2016	17,053,125,802	4.00%
2017	17,990,024,388	5.49%
2018	18,866,885,252	4.87%
2019	20,926,216,480	10.92%
2020	22,522,715,424	7.63%
Average		5.08%

Source: California Municipal Statistics

- ❖ District's gross bonding capacity is approximately \$563.1 million (2.50% x assessed value).
- ❖ District's outstanding G.O. bond debt is approximately \$167.3 million.
- ❖ District's net bonding capacity, or current debt limit, is approximately \$395.8 million.



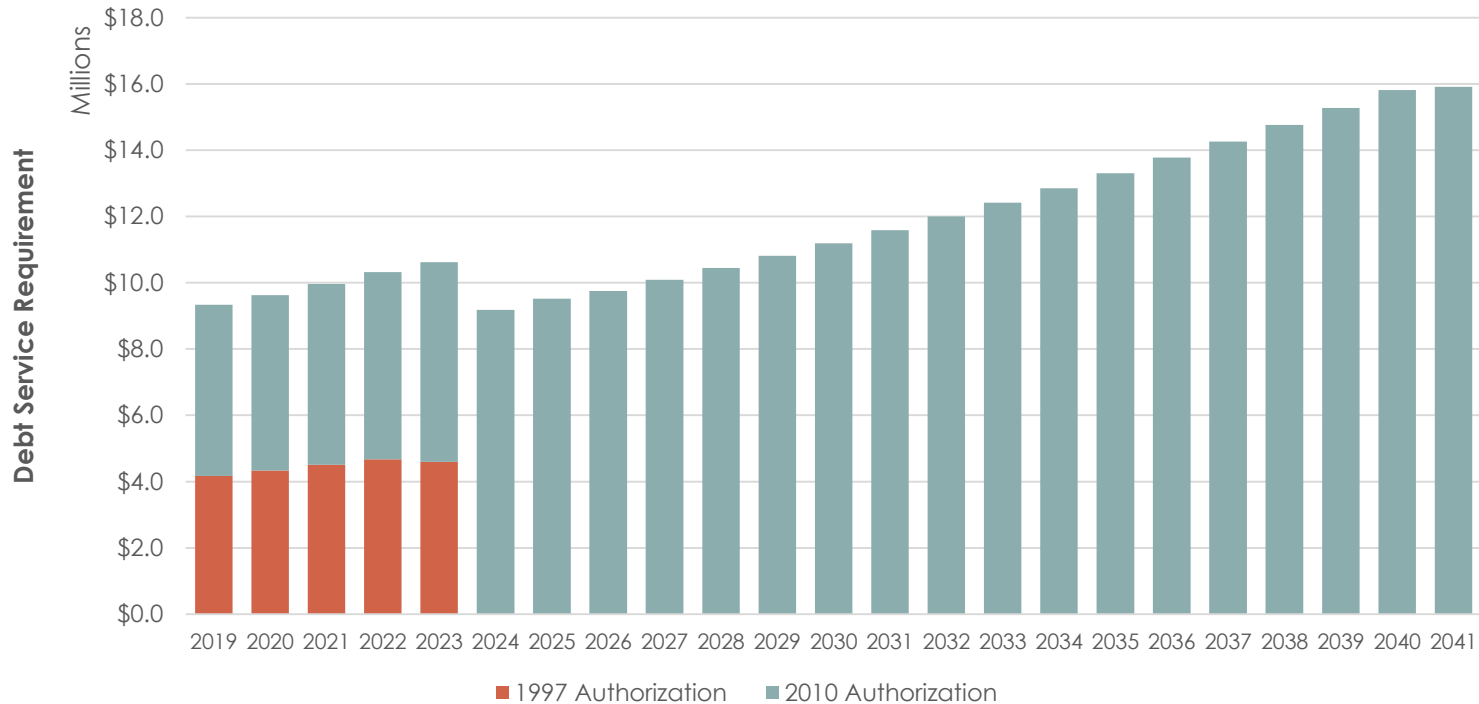
Debt Service Schedule

Bond debt service increases by about 3.5% per year

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- ❖ The District's 1997 Authorization is set to be fully repaid in 2023.

South San Francisco USD: Bond Program

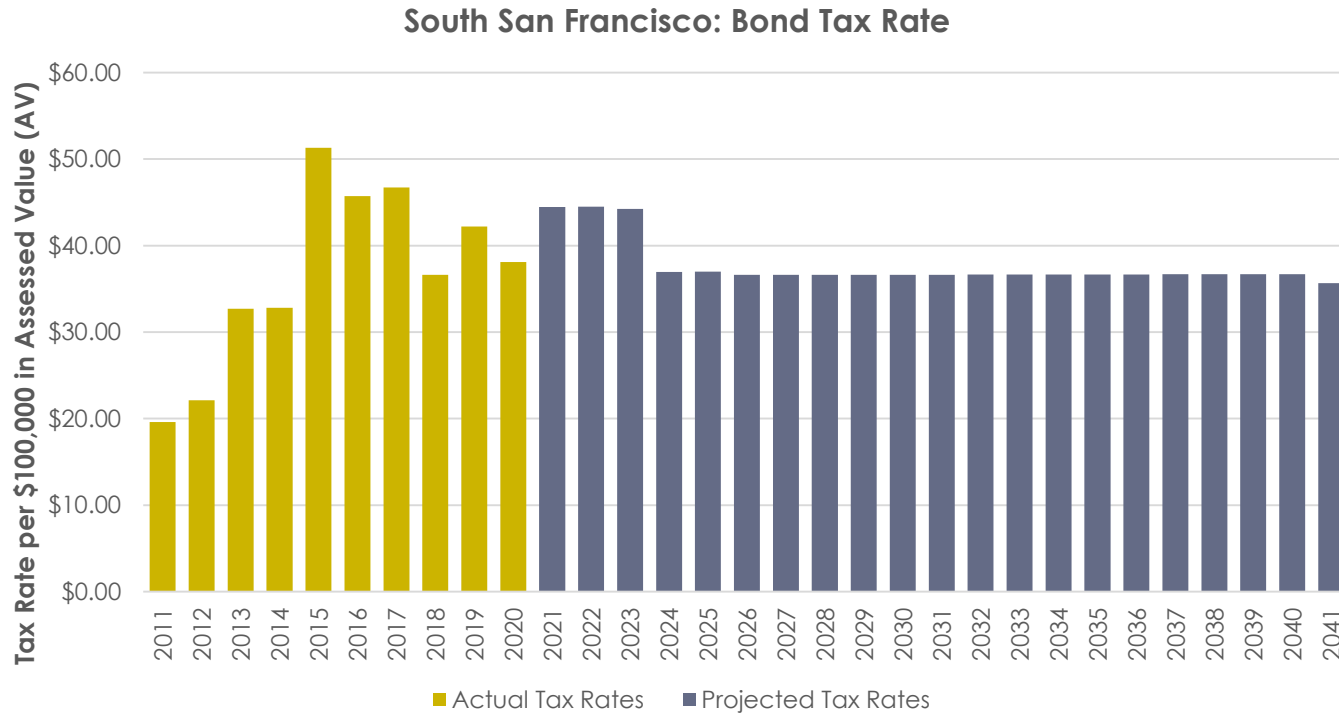


Tax Rates



Tax rates are projected to stay relatively level

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Source: County of San Mateo and California Municipal Statistics for actual tax rate information

- ❖ The 2016 GO financing was structured to keep combined tax rates below \$50 per \$100,000 in assessed value.

San Mateo County Bond Elections



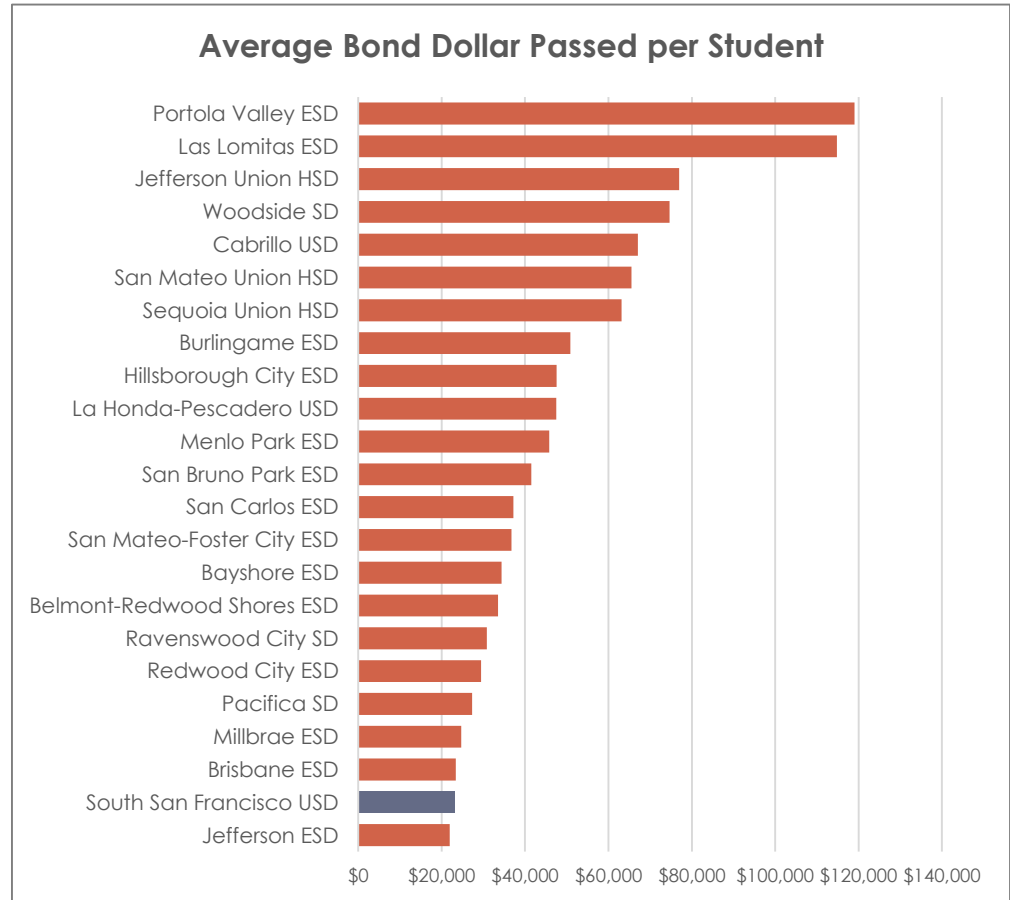
San Mateo County voters have been supportive of schools

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❖ San Mateo voters have been very supportive of general obligation bonds.

School District	2019-20 Tax Rate	Comb Elem & High
Jefferson Union HSD	\$81.10	
Bayshore ESD	\$41.90	\$123.00
Brisbane ESD	\$19.00	\$100.10
Jefferson ESD	\$66.70	\$147.80
Pacifica SD	\$50.50	\$131.60
San Mateo Union HSD	\$38.50	
Burlingame ESD	\$63.30	\$101.80
Hillsborough City ESD	\$29.20	\$67.70
Millbrae ESD	\$32.30	\$70.80
San Bruno Park ESD	\$49.70	\$88.20
San Mateo-Foster City ESD	\$43.70	\$82.20
Sequoia Union HSD	\$34.00	
Belmont-Redwood Shores ESD	\$67.50	\$101.50
Las Lomitas ESD	\$85.40	\$119.40
Menlo Park ESD	\$36.50	\$70.50
Portola Valley ESD	\$50.50	\$84.50
Ravenswood City SD	\$52.20	\$86.20
Redwood City ESD	\$39.60	\$73.60
San Carlos ESD	\$60.40	\$94.40
Woodside SD	\$43.10	\$77.10
Cabrillo USD	\$115.10	
La Honda-Pescadero USD	\$53.30	
South San Francisco USD	\$38.10	

Source: County of San Mateo



Source: Ed-Data; Ballotpedia.org; California State Treasurer; CA Department of Education