



# **Financing of the Oddstad Workforce Housing Project**

November 8, 2017

# Objectives

## Presentation Booklet Goals

## Pacifica School District

1. Provide updated pro forma assumptions on Oddstad Workforce Housing Project
2. Present a sensitivity analysis to changing rental escalations and borrowing costs
3. Explore options on how to mitigate potential changes to projections

# Program Details

There will be 45 units for Phase One

**Pacifica School District**

- There will be 45 total units in the first phase.
  - Incorporation of five affordable housing units.
  - Addition of a property manager's unit.

Unit Type	Workforce Housing	Affordable @ 80% AMI	Affordable @ 100% AMI
1 BR / 1 BA	17 units (\$2,000 / mo)	1 unit (\$1,900 / mo)	1 unit (\$2,100 / mo)
2 BR / 2 BA	17 units (\$2,500 / mo)	1 unit (\$2,300 / mo)	1 unit (\$2,500 / mo)
3 BR / 2 BA	5 units (\$2,900 / mo)	1 unit (\$2,500 / mo)	
Property Manager's Unit	1 unit (\$1,200 / mo)		
<b>Total</b>	<b>40 Units</b>	<b>3 units</b>	<b>2 units</b>

- Two phases with up to a total of 65 units.

# Proforma Rents vs. Market Rents

## Updated Rental Rates

## Pacifica School District

- ❖ Current market housing rates are incorporated in the updated analysis.

### **2017 Rents / Current Assumption**

- Median 2 Bedroom Rent (Pacifica): \$3,395/Month
- Proposed 2 Bedroom Rent (Workforce Housing): \$2,500/Month
- Savings: \$10,740/Year/Dwelling Unit

### **2016 Rents / Prior Assumption**

- 2 Bedroom Market Rent: \$2,996/Month
- Proposed 2 Bedroom Rent (Workforce Housing): \$2,000/Month
- Savings: \$11,952/Year/Dwelling Unit

# Projected Rental Income

Past and current analyses assume 3.0% rental escalation

**Pacifica School District**

- ❖ Net operating income is higher in the updated proforma based on the updated market rents.

	2017	Trend	2022	2023	2024	2025
Annual Gross Rents	\$1,242,000	3.0%	\$1,439,818	\$1,483,013	\$1,527,503	\$1,573,328
Vacancy	(\$27,996)	3.0%*	(\$32,455)	(\$33,429)	(\$34,432)	(\$35,464)
Operating Expense	(\$199,320)	3.0%	(\$231,067)	(\$237,999)	(\$245,138)	(\$252,493)
Replacement Reserves	(\$45,000)	\$1000 / unit	\$0	(\$15,000)	(\$30,000)	(\$45,000)
Operating Reserves	(\$33,750)	\$750 / unit	\$0	(\$33,750)	(\$34,763)	(\$35,805)
<b>Net Operation Income</b>	<b>\$935,934</b>	<b>...</b>	<b>\$1,176,297</b>	<b>\$1,162,836</b>	<b>\$1,183,171</b>	<b>\$1,204,566</b>

\*Assumes vacancy of one out of 39 workforce housing units.

# Project Costs

Project costs continue to increase

Pacifica School District

- ❖ The table below compares the original EHP estimate to the updated Brookwood estimate.

	Original EHP Estimate	Updated Brookwood Estimate
Land	--	--
Construction	\$11.4 Million	\$15.5 Million
Construction Escalation	--	\$1.2 Million
Soft Costs	\$1.6 Million	\$4.1 Million
Soft & Hard Cost Contingency	\$1.3 Million	\$1.5 Million
Pre-Dev Financing	--	\$0.1 Million
<b>Total</b>	<b>\$14.3 Million</b>	<b>\$22.4 Million</b>
Esc. Contingency	--	\$0.6 Million
<b>Total Project Cost*</b>	<b>\$14.3 Million</b>	<b>\$23.0 Million</b>

\*Not including long-term financing.

# Financing Options

## Long-term Financing: Certificates of Participation

## Pacifica School District

- ❖ In past discussions, the District expressed their intention to utilize Certificates of Participation or COPs to financing the Oddstad project.
- ❖ COPs are a common tool used by school districts to fund capital improvements.
- ❖ COPs allow an issuer to spread the cost of a capital project over the useful life of the project.
- ❖ The general fund is pledged for the repayment of the COPs.
- ❖ The COP legal structure requires an asset for lease documents and investors buy a certificate that entitles them to participate in a portion of the lease payment.
- ❖ It does not require voter authorization.

# Financing Options

## Interim Financing: HEART Loan

## Pacifica School District

- ❖ It also became clear that there will be a need for interim financing for bridging documents and other planning expenses.
- ❖ The Housing Endowment and Regional Trust (HEART) of San Mateo County is able to provide a short-term loan to the District.
- ❖ County counsel and bond counsel have been involved in the discussions to make sure that the District complies with Education Code requirements.
- ❖ The Board passed a resolution approving the HEART loan last month.
- ❖ The HEART loan will likely be repaid from the proceeds of a long-term financing.



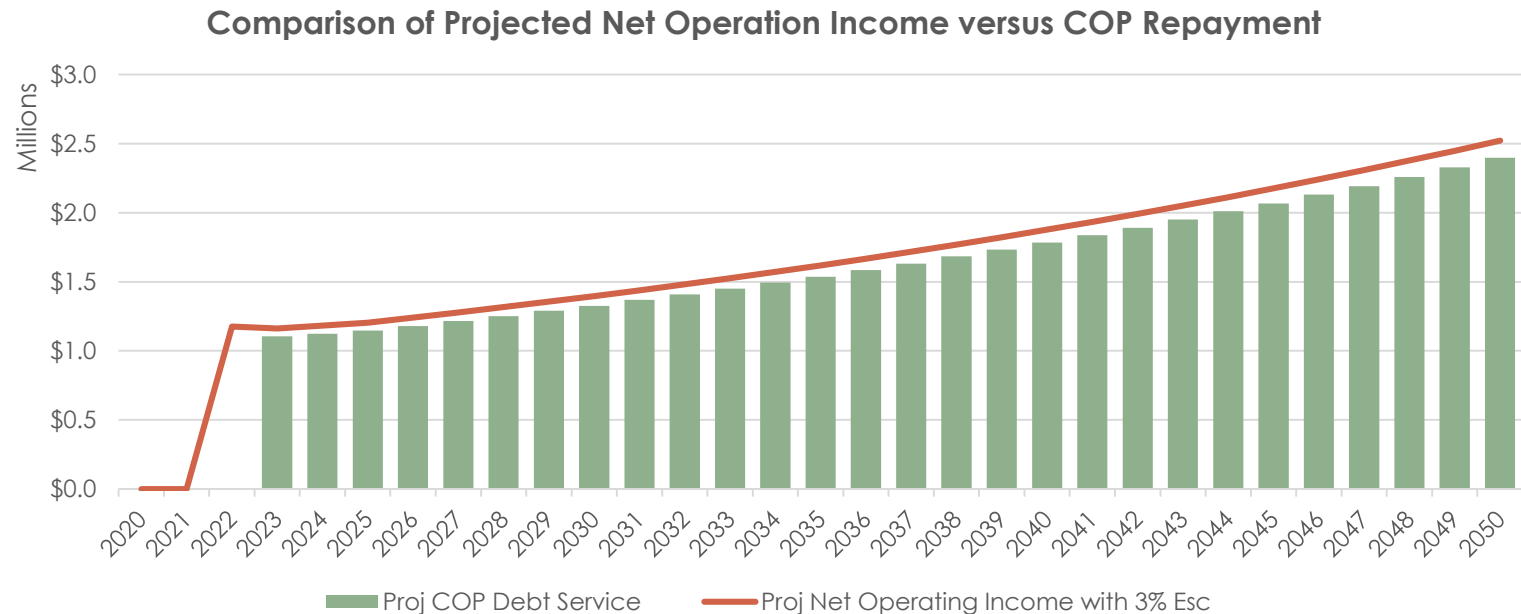


# COP Repayment Structure

Matching COP repayment to projected revenues

Pacifica School District

- ❖ The COPs will be structured provide a “cushion” between projected net operation income and projected COP payments.



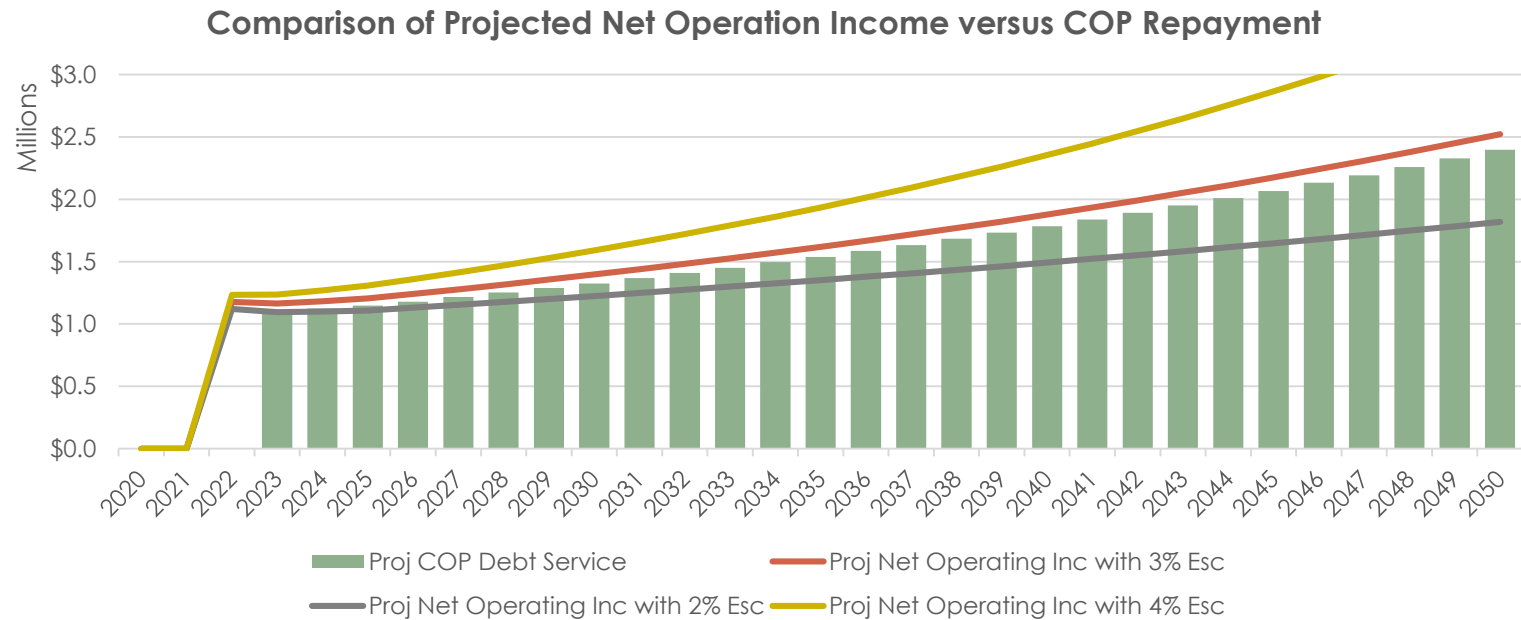
- Our current analysis suggests that the repayment period will need to be **at least** 30-years for sufficient coverage.

# Sensitivity Analysis (1)

Actual versus projected net operation income

Pacifica School District

- ❖ Actual net operation income could differ from projections, depending on the future housing market.



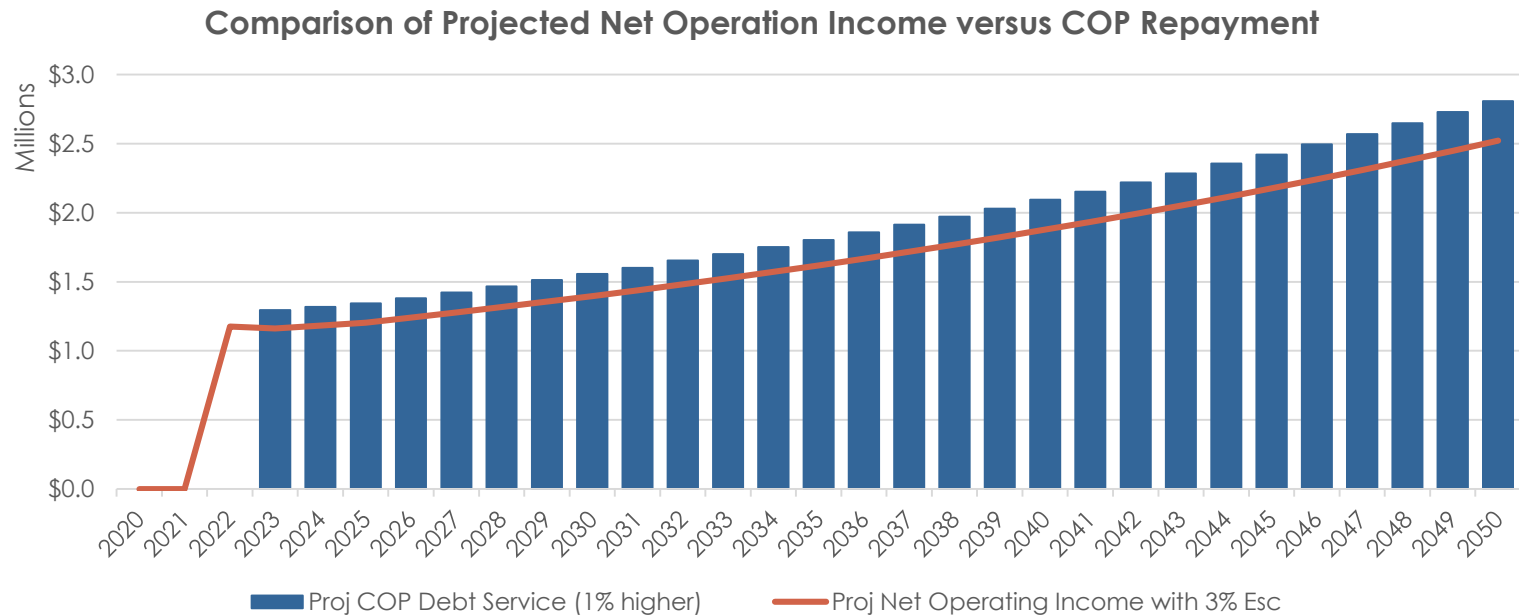
- The actual net operation income over time could continue to fluctuate.

# Sensitivity Analysis (2)

Interest rates could increase over the next three years

**Pacifica School District**

- ❖ Increases in interest rates would increase the COP payments, narrowing the “cushion” or exceeding the current net operation income projections.



\*Assuming interest rates that are 1% higher.

- The interest rates and debt service on the COPs will be locked in at the time of pricing.

# Planning for All Possibilities

## Options to mitigate impact of potential changes

## Pacifica School District

- ❖ We would encourage the District to explore options on how to mitigate potential changes to projections such as:
  - Setting aside reserves in positive cash flow months / years.
  - Setting aside reserves from other available resources.
  - Making adjustments to rent charged, if necessary.
  - Leaving flexibility to restructure COP repayments, if necessary or advantageous.
  - Leaving open the legal possibility of utilizing general obligation bond funding to make up short-falls in the cash flow.

# Next Steps

## Project Schedule

## Pacifica School District

Date	Step
September 15, 2017	Issuance of RFQ
November 15, 2017	RFQ Responses Due
<b>December 2017 to April 2018</b>	<b>Interim Financing; Selection of Respondents; Preparation of Bridging Docs, Issuance of RFP</b>
May to June 2018	Review of RFPs; Recommendation to Board; Contract Execution
August to December 2018	<b>First Stage Award</b> --Design Refinement. Formal Submittal for Re-Zoning and General Plan Amendment, Community Outreach. Technical Review by City. Planning Commission Study Session. Project Contract Confirmation
December 2018 and Beyond	<b>Second Stage Award</b> --Work subsequent to Project Contract Confirmation
August 2018 to October 2019	EIR and Entitlements—overlapping with First and Second Stage Awards. Culminates in Planning Commission Hearing and City Council Approvals
October 2019 to April 2020	Construction Documentation
April 2020 to Sept 2021	Building Permit and Construction
September to December 2021	Move-in, Punch List and Close-out
Sept 2021 to Sept 2022	One Year Warranty Period

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# Appendix

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# Project Description

## Unit Changes – 45 Total

## Pacifica School District

### Unit Changes -- 45 Total

- (19) 1 Bedroom/1 Bath
  - 1 at 80% AMI; 1 at 100% AMI
- (19) 2 Bedroom/2 Bath
  - 1 at 80% AMI; 1 at 100% AMI
- (6) 3 Bedroom/2 Bath
  - 1 at 80% AMI
- (1) Property Manager's Unit
- Planning Submittal will be for Two Phases with up to a total of 65 Units

# Basis for Affordable Rent Rates

## Comparison to Area Median Income

## Pacifica School District

Allowable Rent @ 100% Area Median Income				Allowable Rent @ 80% Area Median Income		
1 BR	2 BR	3 BR		1 BR	2 BR	3 BR
\$86,475/yr	\$103,750/yr	\$115,300/yr	Annual HH Income	\$79,025/yr	\$94,850/yr	\$105,350/yr
\$7,206/mo	\$8,646/mo	\$9,608/mo	Monthly HH Income	\$6,585/mo	\$7,904/mo	\$8,779/mo
x0.3	x0.3	x0.3	30% HUD Income/ Rent	x0.3	x0.3	x0.3
\$2,162/mo	\$2,594/mo	\$2,883/mo	Allowable Rent before Util.	\$1,976/mo	\$2,371/mo	\$2,634/mo
\$60	\$80	\$100	Utility Allowance	\$60	\$80	\$100
<b>\$2,102/mo</b>	<b>\$2,514/mo</b>	<b>\$2,783/mo</b>	Rent/Month	<b>\$1,916/mo</b>	<b>\$2,291/mo</b>	<b>\$2,534/mo</b>



# Rent Assumptions

## Rents by Unit Type

## Pacifica School District

Rents by Unit Type (Base Rent Year Shown = 2017)			
Unit Size:	1-Bedroom	2-Bedroom	3-Bedroom
		AFFORDABLE	
Number of Affordable Units @ 80% Med Inc.	1	1	1
Monthly Gross Rent (excluding utilities)	\$1,900	\$2,300	\$2,500
Number of Affordable Units @ 100% Med Inc.	1	1	-
Monthly Gross Rent (excluding utilities)	\$2,100	\$2,500	-
		WORKFORCE	
Number of Workforce Units	17	17	5
Proposed Monthly Gross Rent (excluding utilities)	\$2,000	\$2,500	\$2,900
Manager's Unit	-	-	1
Proposed Monthly Gross Rent (excluding utilities)	-	-	\$1,200
<b>TOTAL NUMBER OF UNITS</b>	<b>19</b>	<b>19</b>	<b>7</b>

# Aggregate Total Rent

## Aggregate Rents by Unit Type

## Pacifica School District

Affordable Housing: Total Revenue	\$11,300	Monthly Gross		<i>Average for (5) Affordable Units / mo.</i>	\$2,260
Workforce Housing: Total Revenue	\$91,000	Monthly Gross		<i>Average Rent for (39) Workforce Units /mo.</i>	\$2,333
Property Manager's Unit: Revenue	\$1,200	Monthly Gross			
	\$103,500	Monthly Gross			
Aggregate Rent:	\$1,242,000	Annual Gross			