

AGENDA

CITY COUNCIL WORK SESSION

September 15, 2020

4:00 PM, City Council Chambers
130 S Galena Street, Aspen



WEBEX

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I. WORK SESSION

- I.A. Council Board Reports & Council Updates
- I.B. Future Planning for 150 Fund Affordable Housing Policy Considerations

MEMORANDUM

TO: Mayor Torre and Aspen City Council

FROM: Chris Everson, Affordable Housing Project Manager
Ben Anderson, Principal Long-Range Planner

THROUGH: Sara Ott, City Manager
Scott Miller, Public Works Director
Pete Strecker, Finance Director
Phillip Supino, Community Development Director

MEMO DATE: September 11, 2020

MEETING DATE: September 15, 2020

RE: Future Planning for 150 Housing Fund Affordable Housing Policy Considerations

REQUEST OF COUNCIL: Staff is requesting that City Council consider the discussion items included and provide staff with direction for short- and long-term priorities for the 150 Housing Development Fund. Additionally, building on the discussion at the 9/14 work session, staff seeks policy direction for Council on the following:

- land banking vs development,
- debt vs. no debt (150 Fund bonding mechanisms),
- use of partnerships and other means of lowering burdens on the 150 Fund,
- prioritization of specific AH opportunities,
- maintenance of existing units relative to other 150 Fund priorities,
- potential alternative future revenue streams for AH.

Specific questions for Council include:

- Does Council wish to pursue the use of debt to support the existing 150 Fund revenue streams to maximize housing development in the short term?
- Does Council wish to consider the extension of the existing 1% Housing Real Estate Transfer Tax (Housing RETT) and the 0.45% Sales Tax past the 2040 sunset?
- Does Council wish to direct staff to set aside funds in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory?
- Does Council wish to direct staff to research and propose alternate revenue streams – whether reallocation or increase of existing revenue streams, or the creation of new revenue streams – for the 150 Fund to support land banking and affordable housing development?

SUMMARY AND BACKGROUND: The Burlingame Phase 3 project is currently scheduled for construction from 2021 through 2022, and Council has directed staff to prepare the Lumberyard project for construction beginning in 2024. The City of Aspen 150 Housing Development Fund has the capacity to support budgeting for the Burlingame Phase 3 project as a condominium ownership facility. But the 150 Fund needs to be planned for future uses to be best prepared for the Lumberyard, potential acquisition and land banking opportunities, and any other future housing development projects (or other initiatives related to maintaining existing housing inventory) which Council may be inclined to set up for the future of the affordable housing program.

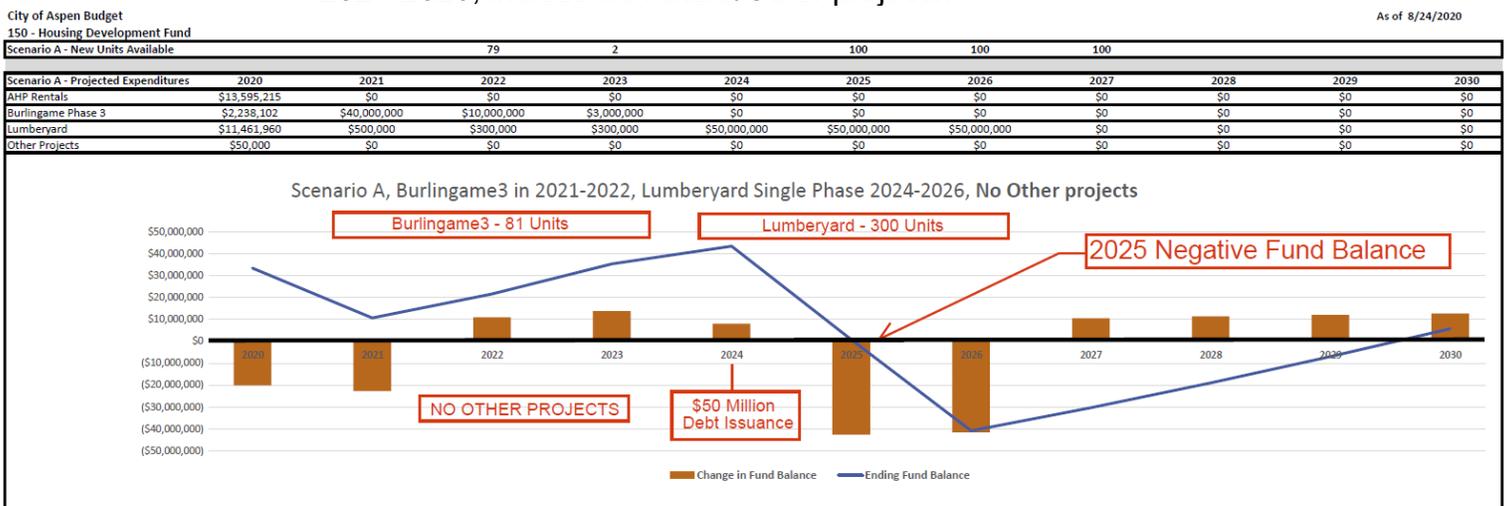
DISCUSSION: Council has expressed interest in issuing debt to augment 150 Fund revenues which could be used to accelerate the creation of more affordable housing. If Burlingame 3 is to be completed by mid-2022 and then if construction on the Lumberyard is to begin in 2024, it appears necessary to issue debt to facilitate this sequencing. Additionally, it also appears that, even if City Council does choose to issue debt to support the Lumberyard construction start in 2024, the size of the first phase of the Lumberyard will need to be limited. Staff has recently analyzed the capacity of the 150 Fund and has developed the following fund management scenarios described below.

150 Fund Cash Flow Scenarios

Staff has included three cash flow scenario models for the 150 Fund as listed below. Each of the three scenarios described below includes a debt issuance of \$50 million leading up to a 2024 Lumberyard construction start.

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Scenario A: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include no Future/Other projects.



Please see the attached exhibits for a larger format version of the above cash flow model.

In Scenario A, the City of Aspen would budget \$50 million across 2021 and 2022 to build 79 new units at Burlingame 3. The sale of those units in late 2022 and early 2023 is

expected to provide approximately \$20 million in revenues back to the 150 Fund. By the end of 2023, the remaining balance in the 150 Fund is projected to be over \$20 million.

Council’s most recent direction on the Lumberyard is to plan for some 300+ units with construction starting in 2024. But Scenario A demonstrates that, even with the issuance of \$50 million in debt proceeds leading up to 2024, the Lumberyard project cannot be completed as one big phase of some 300+ units in 2024-2026. As per the exhibit shown, attempting to do so would cause the balance of the 150 Fund to run negative beginning near the end of 2025. This leads staff to the following conclusions related to Scenario A:

- A 2023 ending fund balance of approximately \$20 million is not enough to begin construction on a significant portion of the Lumberyard project in 2024
- To facilitate a 2024 construction start for a significant portion of the Lumberyard project, it will be necessary to issue debt leading up to 2024
- Construction of the Lumberyard project will need to be phased based on available funds, including debt proceeds

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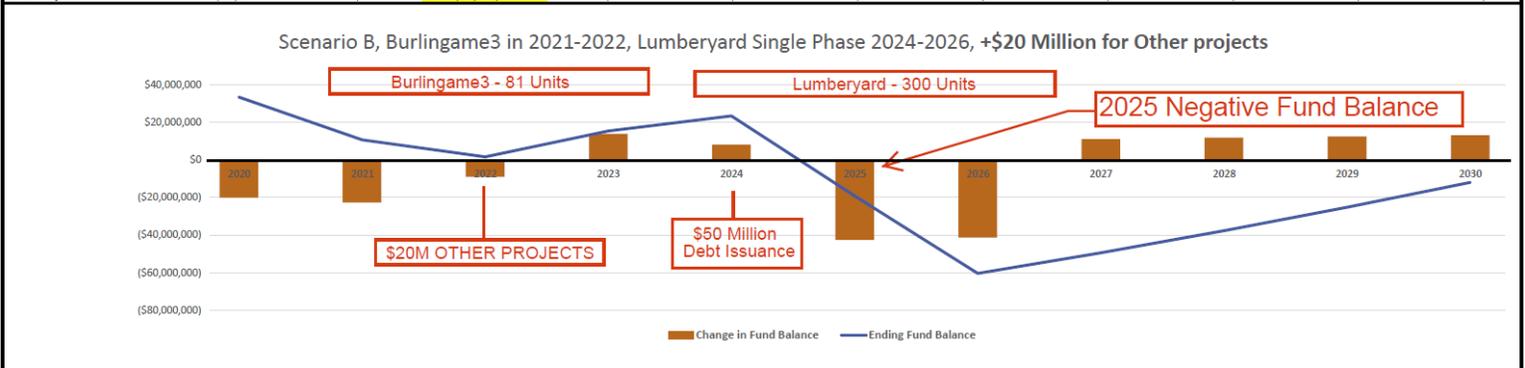
Scenario B: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include Future/Other projects

City of Aspen Budget

150 - Housing Development Fund

As of 8/24/2020

Scenario B - New Units Available	79	2	100	100	100						
Scenario B - Projected Expenditures	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
AHP Rentals	\$13,595,215	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Burlingame Phase 3	\$2,238,102	\$40,000,000	\$10,000,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lumberyard	\$11,461,960	\$500,000	\$300,000	\$300,000	\$50,000,000	\$50,000,000	\$50,000,000	\$0	\$0	\$0	\$0
Other Projects	\$50,000	\$0	\$20,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



Please see the attached exhibits for a larger format version of the above cash flow model.

As prior City Councils have demonstrated, it is important to consider both short- and long-term goals of the affordable housing program. Development approval for Burlingame 3 was put in place 9 years ago, and a large portion of the Lumberyard property was purchased in 2008. Those actions by prior City Councils to facilitate future projects were performed at the expense of short-term activities and were executed in good faith that a future Council would follow through with those plans.

Since Scenario A shown above does not include any Council actions to facilitate future projects beyond Burlingame 3 and the Lumberyard, nor does Scenario A consider ongoing care for the existing housing inventory, Scenario B was created to measure the extent to which the fund might be worse off if the 2023 fund balance of approximately \$20 million were put to use for potential future projects and/or ongoing care for the existing housing inventory.

In Scenario B, \$20 million is set aside in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory. Scenario B leads staff to once again conclude that it will be necessary to issue debt leading up to a phased 2024 Lumberyard construction start and to additionally conclude that the 150 Fund is not prohibitively worse off by using the short-term fund balance for potential future projects or ongoing care for the existing housing inventory.

What those potential future projects or ongoing care for the existing housing inventory might be is described in the discussion further below.

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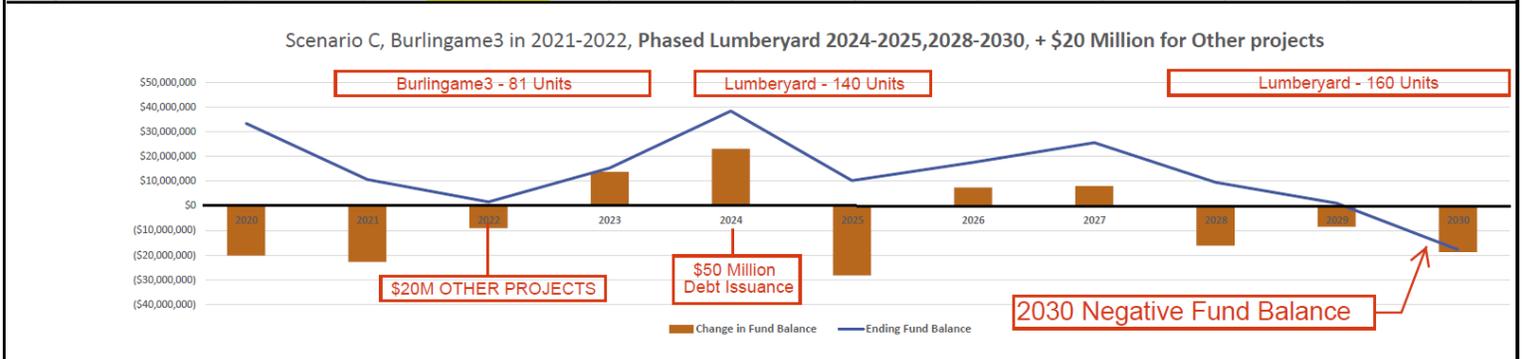
Scenario C: Build Burlingame 3 in 2021-2022, and phase the Lumberyard construction in 2024-2026 and 2028-2030, also accommodate Future/Other projects

City of Aspen Budget

150 - Housing Development Fund

As of 8/24/2020

Scenario C - New Units Available	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Scenario C - Projected Expenditures											
AHP Rentals	\$13,595,215	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Burlingame Phase 3	\$2,238,102	\$40,000,000	\$10,000,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lumberyard	\$11,461,960	\$500,000	\$300,000	\$300,000	\$35,000,000	\$35,000,000	\$0	\$0	\$25,000,000	\$30,000,000	\$30,000,000
Other Projects	\$50,000	\$0	\$20,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



Please see the attached exhibits for a larger format version of the above cash flow model.

Scenario C was created based on the conclusions described to this point and is the approach recommended by staff for Council to accomplish its stated goals. Under Scenario C, the 150 Fund would be managed to facilitate the following:

- Burlingame 3 would be completed in 2022 as an affordable condominium ownership project with 79 units
- \$20 million of projected fund balance is set aside in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory

- Approximately \$50 million in debt proceeds is issued leading up to a phased approach to the construction of the Lumberyard in 2024
- Construction of the Lumberyard is phased in roughly two halves, the first half constructed in 2024-2026, second half in 2028-2030

Although the Scenario C diagram shows a negative fund balance occurring at the end of 2030, by that time we would have a chance to see the annual revenue collections in the years leading up to 2028-2030 and determine whether or not the final phase of the Lumberyard would need to be pushed out by another year or two to keep the fund positive.

Due to the need for staff to project fund revenues in a relatively conservative fashion, the 150 Fund revenue sources often outperform staff projections, and the negative fund balance in 2030 may not occur as shown and may not require the need to delay the second half of the Lumberyard phasing.

Given the realities of the scenarios described above, staff seeks direction from Council on how to balance the phasing of the Lumberyard with other AH priorities, including land banking, additional development projects, and other potential uses of the 150 Fund? (See Exhibit B for a score card in helping to guide prioritization).

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Ongoing care for the existing housing inventory

The ongoing health of the City's affordable housing program must consider both short-term production of new affordable housing as well as long-term considerations, such as upkeep of the existing affordable housing inventory, deed restriction sunsets, and future production of new affordable housing. It is common for City Council to engage in numerous different facets of the ongoing timeline of the affordable housing program. While the creation of additional inventory is a stated goal of this Council, the maintenance requirements and potential loss of existing units is a matter of concern for staff and the future balance of the 150 Fund.

Potential future projects

Under the recommended Scenario C described above, the objective of setting aside some \$20 million for short-term investment in potential future projects would be to provide Council the opportunity and flexibility to effectively "tee up" a project (or projects) for a future Council to execute. This would require Council to balance current and future affordable housing needs, i.e. balancing the desire to *produce affordable housing sooner* versus *producing some affordable housing sooner and making investments to ensure that the City can also produce more affordable housing in the future*.

With Burlingame 3 and the Lumberyard currently being pursued, it is also important for Council to consider investing available funds (around \$20 million in 2022-2023 in this case) toward some "Future/Other Projects". As directed, staff has continued to have

occasional, and in some cases ongoing, check-ins and conversations about each of the following types of opportunities, some of which could become more viable for potential investment in the coming years:

150 Fund – Competing Priorities	
Approved current projects	<ul style="list-style-type: none"> • Burlingame 3
Approved future projects	<ul style="list-style-type: none"> • Lumberyard
Potential future projects	<ul style="list-style-type: none"> • land banking for future projects • housing development partnerships • redevelopment with increased density at existing properties (Truscott 200-300, Truscott 100, Marolt)
Ongoing care for existing inventory	<ul style="list-style-type: none"> • capital reserves / maintenance • preservation of deed restrictions • downsizing incentives program

Potential Bond Financing

In the event that Council wishes to prepare to issue debt as described, it may be necessary to extend the existing 150 Fund revenues sources to facilitate coverage of the debt service through the necessary bond term (potentially through 2054).

On November 4, 2008, City of Aspen voters voted in favor of extending the existing housing 1% Real Estate Transfer Tax and 0.45% housing and daycare sales tax through 2040.

The 2008 ballot initiative was originally intended to support a bond debt issuance of nearly \$100 million to construct housing at Burlingame Phase 2 and at 488 Castle Creek, both of which were later constructed without the use of debt, but at a slower pace to allow existing 150 Fund cash flows to support those projects without the use of debt.

Staff seeks direction from Council as to whether the 2040 RETT and 0.45% Sales Tax sunset ought to be extended to lower annual debt service repayment costs.

Augmentation of 150 Fund Revenue Streams

Whether or not Council wishes to prepare for the debt issuance described above, Council may consider directing staff to research and propose augmentation of recurring 150 Fund revenue streams. Options remain to be determined and may include alternatives such as:

- Repurposing the Wheeler portion of the RETT to be used for housing,
- Adjustment to the existing 45% of the 0.45% sales tax dedicated to housing¹,
- Introduction of additional taxes or potential other revenue streams.

Does Council wish to direct staff to research and propose alternate revenue streams – whether reallocation of existing revenue streams or the creation of new revenue streams – for the 150 Fund for the creation of more affordable housing?

FINANCIAL IMPACTS: Included in discussion

ALTERNATIVES: Numerous alternatives could be considered, such as:

- Council could reject the idea of setting aside \$20 million in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory and could instead combine the \$20 million with approximately \$50 million in debt proceeds to be issued leading up to 2024 to facilitate a larger initial phase of the Lumberyard
- Council could reject the proposed use of debt leading up to a phased Lumberyard construction starting in 2024 and could instead take a ‘wait and see’ approach as to whether the projected 2023 fund balance of \$20 million is outperformed by the existing 150 Fund revenue streams.
- Council could reject the proposed use of debt leading up to a phased Lumberyard construction starting in 2024, and could instead direct staff to research the possibilities around potentially augmenting the existing 150 Fund revenue streams, whether reallocation of existing revenue streams or the creation of new revenue streams

RECOMMENDATIONS:

- Staff recommends that Council consider utilizing the approach described above in Scenario C along with any potential variations which Council may wish to include in their direction.
- Staff recommends Council provide policy direction on the priorities of land banking and development of additional units.
- Staff recommends Council direct staff to develop plans for the use of 150 Fund dollars to ensure the maintenance of existing AH stock. Staff also recommends Council consider financial and regulatory remedies for the sunseting of existing deed restrictions.

CITY MANAGER COMMENTS:

EXHIBITS:

Exhibit A – Presentation slides including 150 Fund Cash Flow Scenario Diagrams

¹ A portion of this tax goes to Kid’s First. Adjustments to the allocation of this tax toward the 150 Fund without increasing the overall tax rate would be at the expense of the Kid’s First Fund.



CITY OF ASPEN

Future Planning for 150 Housing Development Fund

Exhibit A - Presentation Slides

September 15, 2020 9

Background

- **Burlingame Phase 3 is currently scheduled for construction from March 2021 to September 2022**
- **Council has directed staff to prepare the Lumberyard for construction beginning in 2024**
- **The 150 Housing Development Fund does have capacity to support budgeting for the Burlingame Phase 3 project as a condominium ownership facility**
- **The 150 Fund needs to be planned to be best prepared for the Lumberyard and any other future affordable housing-related investments which Council may be inclined to make**

Discussion

150 Fund Cash Flow Scenario A: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include no Future/Other projects.

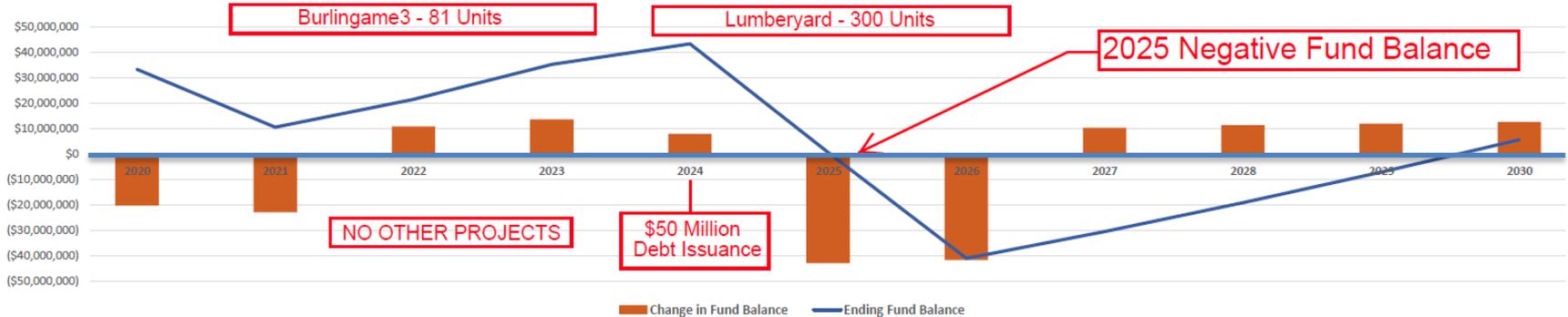
City of Aspen Budget

150 - Housing Development Fund

As of 8/24/2020

Scenario A - New Units Available	79	2	100	100	100						
Scenario A - Projected Expenditures	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
AHP Rentals	\$13,595,215	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Burlingame Phase 3	\$2,238,102	\$40,000,000	\$10,000,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lumberyard	\$11,461,960	\$500,000	\$300,000	\$300,000	\$50,000,000	\$50,000,000	\$50,000,000	\$0	\$0	\$0	\$0
Other Projects	\$50,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Scenario A, Burlingame3 in 2021-2022, Lumberyard Single Phase 2024-2026, No Other projects



Discussion

150 Fund Cash Flow Scenario A: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include no Future/Other projects.

Conclusions:

- A 2023 ending fund balance of approximately \$20 million is not enough to begin construction on a significant portion of the Lumberyard project in 2024
- To facilitate a 2024 construction start for a significant portion of the Lumberyard project, it will be necessary to issue debt leading up to 2024
- Construction of the Lumberyard project will need to be phased based on available funds, including debt proceeds

Discussion

150 Fund Cash Flow Scenario B: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include Future/Other projects

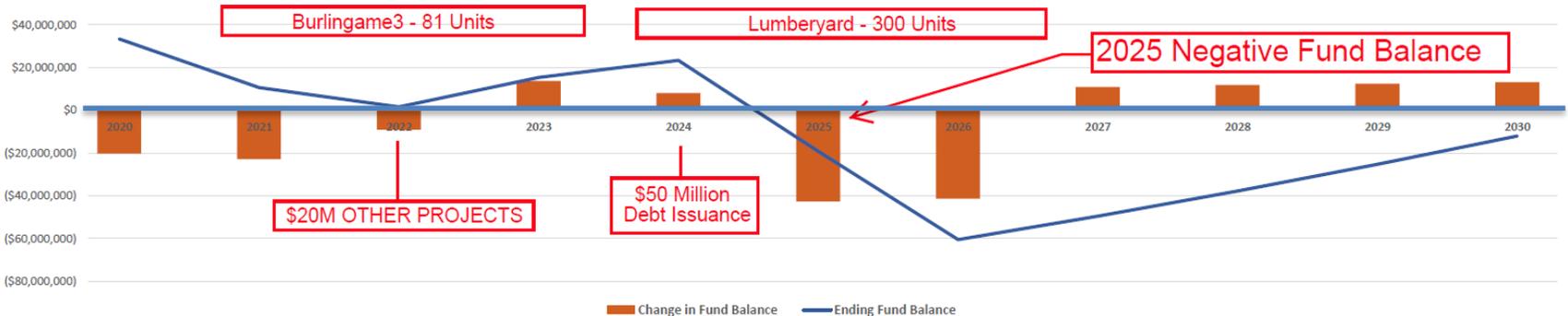
City of Aspen Budget

150 - Housing Development Fund

As of 8/24/2020

Scenario B - New Units Available	79	2	100	100	100						
Scenario B - Projected Expenditures	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
AHP Rentals	\$13,595,215	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Burlingame Phase 3	\$2,238,102	\$40,000,000	\$10,000,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lumberyard	\$11,461,960	\$500,000	\$300,000	\$300,000	\$50,000,000	\$50,000,000	\$50,000,000	\$0	\$0	\$0	\$0
Other Projects	\$50,000	\$0	\$20,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Scenario B, Burlingame3 in 2021-2022, Lumberyard Single Phase 2024-2026, +\$20 Million for Other projects



Discussion

150 Fund Cash Flow Scenario B: Build Burlingame 3 in 2021-2022, and build Lumberyard as one big phase in 2024-2026, include Future/Other projects

Conclusions:

- **The 150 Fund is not prohibitively worse off by using the short-term fund balance for potential future projects**

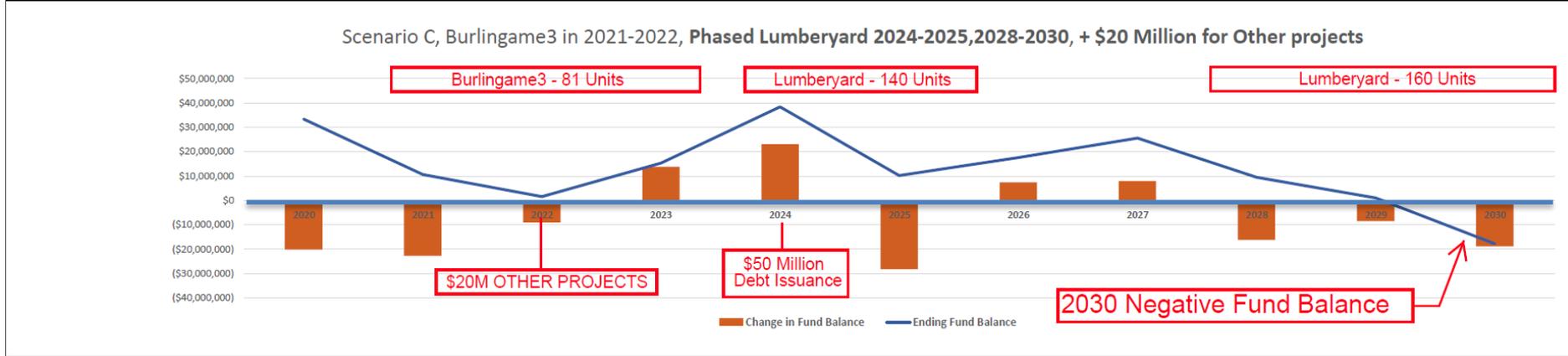
Discussion

150 Fund Cash Flow Scenario C: Build Burlingame 3 in 2021-2022, and phase the Lumberyard construction in 2024-2026 and 2028-2030, also accommodate Future/Other projects

City of Aspen Budget
150 - Housing Development Fund
Scenario C - New Units Available

As of 8/24/2020

	79	2	70	70	50	110					
Scenario C - Projected Expenditures	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
AHP Rentals	\$13,595,215	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Burlingame Phase 3	\$2,238,102	\$40,000,000	\$10,000,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lumberyard	\$11,461,960	\$500,000	\$300,000	\$300,000	\$35,000,000	\$35,000,000	\$0	\$0	\$25,000,000	\$30,000,000	\$30,000,000
Other Projects	\$50,000	\$0	\$20,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



Discussion

150 Fund Cash Flow Scenario C: Build Burlingame 3 in 2021-2022, and phase the Lumberyard construction in 2024-2026 and 2028-2030, also accommodate Future/Other projects

Scenario C is recommended and would facilitate the following:

- **Burlingame 3 would be completed in 2022 as an affordable condominium ownership project with 79 units**
- **\$20 million of projected fund balance is set aside in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory**
- **Approximately \$50 million in debt proceeds is issued leading up to a phased approach to the construction of the Lumberyard in 2024**
- **Construction of the Lumberyard is phased in roughly two halves, the first half constructed in 2024-2026, second half in 2028-2030**

Questions for Council

- **Does Council wish to pursue the use of debt to support the existing 150 Fund revenue streams to maximize housing development?**
- **Does Council wish to consider the extension of the existing 1% Housing Real Estate Transfer Tax (Housing RETT) and the 0.45% Sales Tax past the 2040 sunset?**
- **Does Council wish to direct staff to set aside funds in 2022-2023 to facilitate potential future projects and/or ongoing care for the existing housing inventory?**
- **Does Council wish to direct staff to research and propose alternate revenue streams – whether reallocation or increase of existing revenue streams, or the creation of new revenue streams – for the 150 Fund to support land banking and affordable housing development?**