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Housing Funding
The Unsolved Dilemma (Part II)

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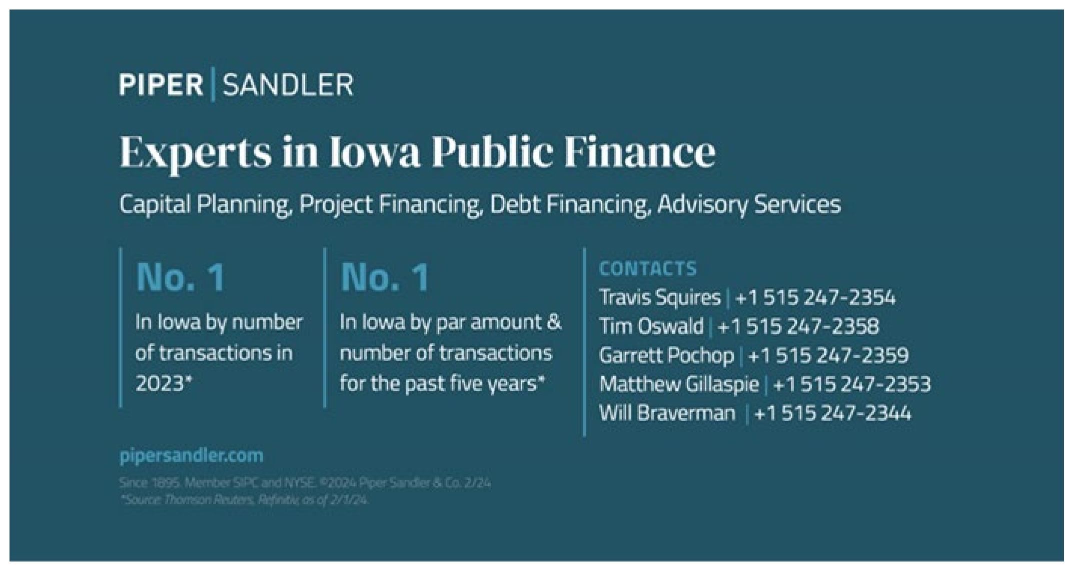


Why are we all here?

A year ago, at this conference, we gave a presentation on this same topic. While we believe that we covered some ground, we believe it only scratched the surface and another rounds of discussion might be beneficial

During that conversations we opened up for some Q & A, which we feel was one of the most beneficial part of the talk.

Obviously, over the past few years, we have dealt with higher mortgage rates and prior to that (and during that same time period), we have seen significant home price appreciation.

OUR OTHER OPTION WAS TO TALK ABOUT PROPERTY TAX REFORM... ☺ … ANOTHER DAY

We want to approach this topic with a great deal of humility.

- we don’t pretend to have the only solution
- We are not trying to circumvent competent legal advice
- the purpose of this conversation is to start the dialogue and provide you with a potential framework for decision making, while recognizing you may already have your own framework (we can talk about that at the end if time allows…!)
- We need to be thoughtful, in light of the potential property tax reform

Questions

Tales from the road

How does a City allocate resources to attract and develop housing solutions for their diverse workforce?

How does a City map out the development and incentive toolbox?

How much incentive is too much incentive?

How do you evaluate the true value of a housing solution for a community, including the local school districts?

What are the risks and what is my city's role in taking on some risk?

2. Understanding the Challenge

“Insights from the Field”

Challenges We Hear from Cities

- No One is Building
- New Housing Take Too Long
- “that’s not the type of housing I would have chosen to be built there”

Challenges We Hear from Developers

- Infrastructure is too costly
- I can make a better return on my money elsewhere
- If I spend capital here, I won’t be able to spend capital elsewhere
- There may not be an adequate supply of labor available to build

Challenges We Hear From Others

- Economic Development not happening because of housing
- Employers can’t hire because housing stock doesn’t exist
- Enrollment at Schools are falling because no housing stock exists

“Insight from ‘Experts” - What Does Some of the “Research” Say?

- Prospective homebuyers and renters across the United States have seen prices surge and supply plummet during the pandemic. Amid these circumstances, about half of Americans (49%) say the availability of affordable housing in their local community is a major problem, up 10 percentage points from early 2018, according to a Pew Research Center survey conducted in October 2021.
- Another 36% of U.S. adults said in the fall that affordable housing availability is a minor problem in their community, while just 14% said it is not a problem.
- Americans’ concerns about the availability of affordable housing have outpaced worries about other local issues. The percentage of adults who say this is a major problem where they live is larger than the shares who say the same about drug addiction (35%), the economic and health impacts of COVID-19 (34% and 26%, respectively) and crime (22%).

So… what is the problem with housing and how do we solve it?

Fortunately, the answer is simple: lack of supply in the face of rising demand

Source: Pew Research Center, Forbes.com

3. Developer Needs and Options

What Does Experience Say?

Our experience in the State of Iowa shows there are many paths for a housing development to be completed

- Developer Funded, no incentives
- Developer Funded, varying incentives (tax abatement, rebates, etc.)
- Developer Funded, municipality assistance (infrastructure, grants, etc.)
- City / Housing Authority Developed

What Distinguishes the Various Paths from one Another?

Cost/Risk for the Developer
Cost/Risk for the Municipality

Developer Funded, No Incentives

Key Characteristics

- Developer purchases land
- Developer pays for infrastructure (grading, paving, utility connections, etc.)
- Developer sells lots to cover infrastructure costs

Risk Characteristics

- All financial risk to Developer
- No financial risk to Municipality

Financial impact on Developer

- Developer still has to come up with cash to buy land, install infrastructure, build houses

Discussion

- What if this doesn’t bring housing?

Developer Funded, Varying Incentives

Key Characteristics

- Developer and City agree to incentives (tax abatement, TIF rebate, etc.)
- Developer purchases land
- Developer pays for infrastructure (grading, paving, utility connections, etc.)
- Developer sells lots to cover infrastructure costs

Risk Characteristics

- Most financial risk remains with Developer
- Some financial risk may remain with Municipality depending upon terms of incentives

Financial Impact on Developer

- Developer still has to come up with cash to buy land and install infrastructure

Discussion

- What if this doesn't bring housing?

Developer Funded, Municipal Assistance

Key Characteristics

- **Developer / Municipality partnership negotiated**
- **Municipality provides grant or infrastructure improvement to offset developer costs**
- **Developer/Municipality purchases land**
- **Developer/Municipality pays for infrastructure (grading, paving, utility connections, etc.)**
- **Developer sells lots to cover infrastructure costs**

Risk Characteristics

- **Financial risks are shared between Developer and Municipality**

Financial Impact on Developer

- **Terms of the agreement with City determine how much exposure the developer has to come up with cash to buy land and install infrastructure**

Discussion

- **Does city get some portion of proceeds from selling lots?**
- Does city take mortgage on land to secure its commitment?
- How do mortgages get released?
- **What improvements are paid and by whom (and when)?**

City Develops

Key Characteristics

- Developer / Municipality partnership negotiated
- Site may or may not be fully developed up front
- Partnership purchases land
- Partnership pays for infrastructure (grading, paving, utility connections, etc.)
- Partnership sells lots to cover infrastructure costs

Risk Characteristics

- Financial risks are mostly borne by Municipality with Developer taking performance (home building) risks

Financial Impact on Developer

- Terms of the agreement with City determine how much exposure the developer has to get started building homes

Discussion

- How are proceeds from sale of land disbursed?
- How is mortgage (if any) released?

4. What Incentives Are Available?

Considering Various Incentives

	Developer No Incentive	Developer Incentive	Developer Assistance	City Develop
Developer Takes on Risk	✔	✔ Partial	✔ Partial	Perhaps?
City Takes on Direct Risk		Partial?	✔	✔
City Provide TIF Rebate		✔		
City Provide Tax Abatement		✔		
Developer Borrows / Funds	✔	✔	Perhaps?	
City Borrows / Funds			✔	✔

Who has the lower cost of capital?

How does a City map out the development and incentive toolbox?

Starting Points of Debt Limit and Understanding the City's Outstanding Debt Profile Usage

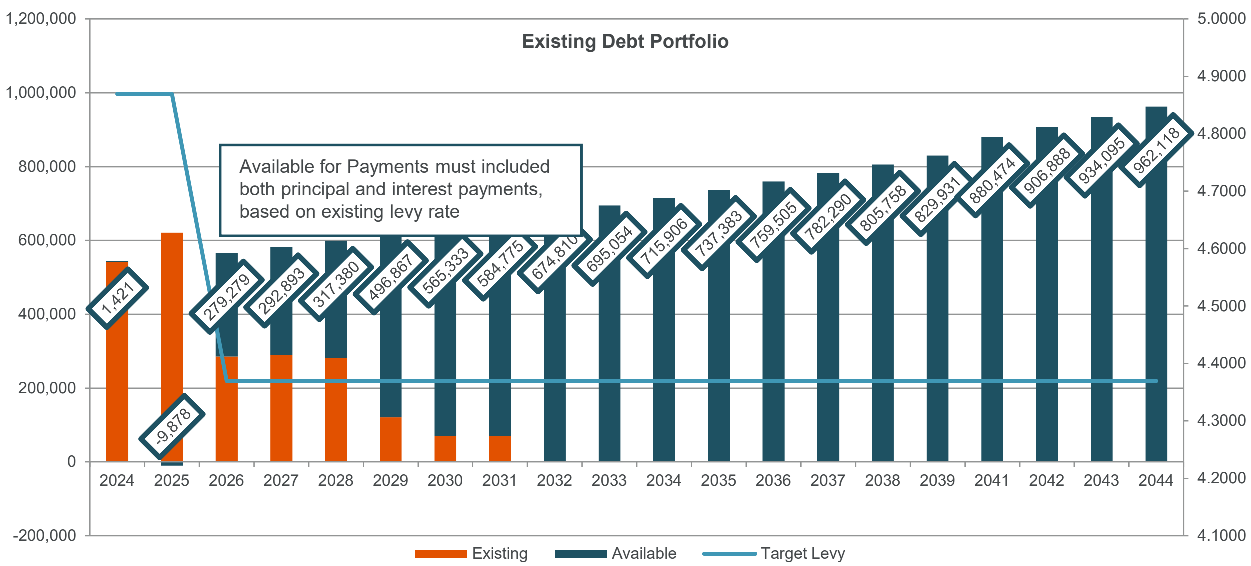
Debt Limit

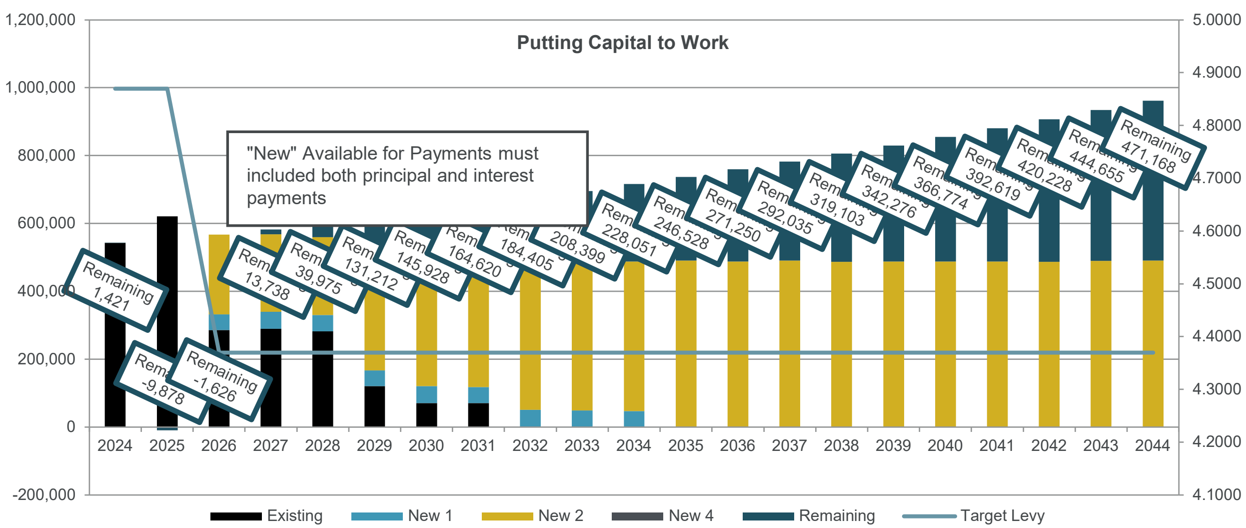
- **"Bright Line Test"**
  - 5% calculation on taxable property (before equalization / rollback, also known as assessed or 100% valuation)
  - Equals maximum amount of property tax backed debt outstanding for the Municipality
  - Utility Revenue debt is not included in this calculation and does not county against the City's debt limit

Debt Profile

- **Resource oriented**
  - Property tax (Debt Service Levy)
  - Other Resources (LOST / Road Use Tax / TIF Revenues / Etc.)
  - Utility Revenues (Water / Sewer / Storm Sewer / Electric / ETC.)
- **Factors in timing, often driven by a Capital Improvement Plan allocation of resources**

Consider an Issuer's Debt Profile
~ Debt Levy only





$125 million

Current Taxable Valuation

$4.40 / $1000

Target Debt Service Levy

$1.55 million

Existing Debt Outstanding

3% growth

Annual Taxable Value growth

$8.4 million

New projects funded within levy constraint

5. How Do We Know If It Worked

How do you evaluate the true value of a housing solution for a community, including the local school districts?

What does new / additional housing bring?

- Population
- Commerce
- Students in School District
- Taxable Valuation (Budget resources)
- Local Option Sales Tax
- Road Use Tax (eventually)
- Utility Revenues
- Additional infrastructure to maintain
- Additional services

"Will the benefits outweigh the costs?"

Consider a Housing Development (Scenario 1)

Base case (1)

Tax Levy Rate Analysis

- **Estimated Levy Rate: $33.69 / $1000**
  - Would pay $3.963M over 10 years
- **Protect Levies (i.e. debt service, PPEL, ISL: $7.65 / $1000**
  - Would pay $900K over 10 years
- **Available TIF Levy Rate: $26.1726 / $1000**
  - Would pay $3.06M over 10 years
  - Assuming LMI = 25% would breakout to $765K LMI, $2.297M regular

What Could be Done to Incentivize Development?

- Rebate to Developer
- LMI Projects
- Other TIF Projects

100 homes

10 homes per year, $400,000 assessed values (+ 2% inflation/yr)

$400,000

Assessed value, building $40 million of market value

$2,000,000

Debt Limit Increase

$22.6 million

Total taxable valuation added

$3.963M

10-yr total increase in property taxes with $33.69 / $1000 overall levy rate (47% rollback)

Consider a Housing Development (Scenario 2)

Faster build out, but less homes (2)

Tax Levy Rate Analysis

- **Estimated Levy Rate: $33.69 / $1000**
  - Would pay $3.339M over 10 years
- **Protect Levies (i.e. debt service, PPEL, ISL: $7.65 / $1000**
  - Would pay $758K over 10 years
- **Available TIF Levy Rate: $26.04 / $1000**
  - Would pay $2.581M over 10 years
  - Assuming LMI = 25% would breakout to $645K LMI, $1.93M regular

What Could be Done to Incentivize Development?

- Rebate to Developer
- LMI Projects
- Other TIF Projects

50 homes

25 homes per year, $400,000 assessed values (+ 2% inflation/yr)

$400,000

Assessed value, building $20 million of market value

$1,000,000

Debt Limit Increase

$11.3 million

Total taxable valuation added

$3.34 million

10-yr total increase in property taxes with $33.69 / $1000 overall levy rate (47% rollback)

Consider a Housing Development (Scenario 3)

Faster build out, but less homes (3)

Tax Levy Rate Analysis

- **Estimated Levy Rate: $33.69 / $1000**
  - Would pay $667K over 10 years
- **Protect Levies (i.e. debt service, PPEL, ISL: $7.65 / $1000**
  - Would pay $151K over 10 years
- **Available TIF Levy Rate: $26.04 / $1000**
  - Would pay $516K over 10 years
  - Assuming LMI = 25% would breakout to $129K LMI, $387K regular

What Could be Done to Incentivize Development?

- Rebate to Developer
- LMI Projects
- Other TIF Projects

10 homes

5 homes per year, $400,000 assessed values (+ 2% inflation/yr)

$400,000

Assessed value, building $4.78 million of market value

$205K

Debt Limit Increase

$4.08 million

Total taxable valuation added

$757K

Estimated total property taxes with $33.69 / $1000 overall levy rate

Financial Model if City is self-developing

New revenues that result from housing development

1. **Base water rate per household**
   - Plus water usage rate
2. **Base sewer rate per household**
   - Plus sewer usage rate
3. **Base stormwater, garbage, etc**
4. **RUT increase (next census) due to population increase**
5. **LOST income increase (**FY25 average $205/person; median $149/person**)**
6. **TIF income increase**
7. **Debt service fund income**

6. Closing Q & A Session

Q&A Session

Bring Back a Few Earlier Questions

What is my city's role in taking on some risk?

How much incentive is too much incentive?

Other Questions???

Appendix A
Piper Sandler Overview

Our Guiding Principles

We create and implement superior financial solutions for our clients.

Serving clients is our fundamental purpose.

We earn our clients' trust by delivering the best guidance and service.

Great people working together as a team are our competitive advantage.

As we serve, we are committed to these core values:

- Always place our clients' interests first
- Conduct ourselves with integrity and treat others with respect
- Work in partnership with our clients and each other
- Attract, retain and develop a diverse group of the best people in a high-quality, inclusive environment
- Contribute our talents and resources to serve the communities in which we live and work

Our Company

Connecting capital with opportunity

Investment Banking

- M&A ADVISORY
- EQUITY AND DEBT CAPITAL MARKETS
- DEBT ADVISORY
- RESTRUCTURING ADVISORY
- PRIVATE CAPITAL ADVISORY

Equities

- INSTITUTIONAL SALES AND TRADING
- EQUITY AND MACRO RESEARCH

Public Finance

- MUNICIPAL UNDERWRITING AND ADVISORY

Fixed Income Services

- MUNICIPAL AND TAXABLE SALES AND TRADING
- BALANCE SHEET STRATEGY AND ANALYTICS

Alternative Asset Management

Equity funds that invest in focus sectors:

- ENERGY FUNDS
- HEALTHCARE FUNDS
- MERCHANT BANKING GROWTH EQUITY FUNDS

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Snapshot

Founded: 1895

NYSE: PIPR

Market Cap: $5.4B

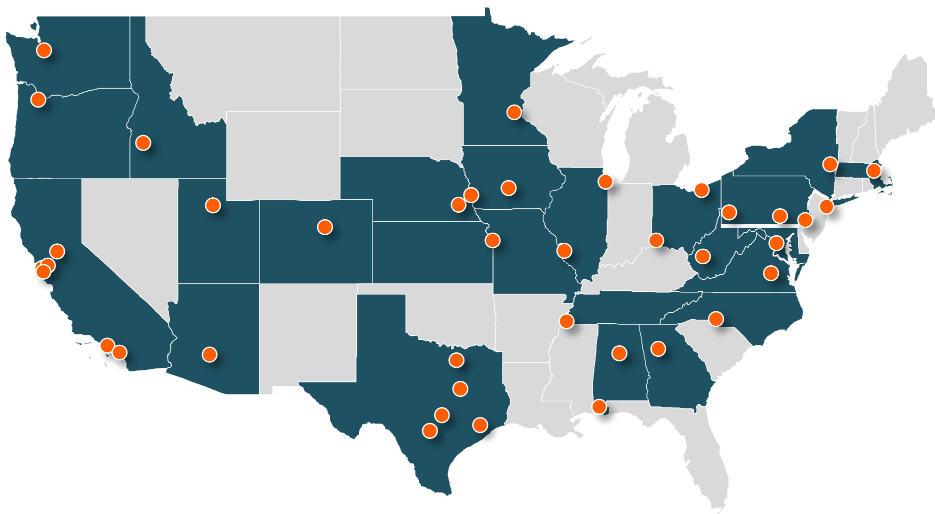
Offices: 60+ globally

Headcount: 1,800+

Public Finance

National platform, regional expertise

Local Governmental Expertise



Deep Specialty Sector Knowledge

- Special Districts
- Healthcare
- Senior Living
- Project Finance
- Education (K-12, Charter Schools & Higher-Ed
- Single-Family & Affordable Multi-Family Housing
- Hospitality
- Nonprofits

81
Sr. Bankers

39
Offices

24
States

Our Services

- Municipal bond underwriting
- Private placements
- Financial advisory
- Variable rate remarketing & underwriting
- Municipal derivatives & reinvestment products

Negotiated and Private Placements[1]

1	Stifel Nicolaus & Co. Inc.	829
2	**Piper Sandler & Co.**	**501**
3	Raymond James	454
4	RBC Capital Markets	433
5	BofA Securities Inc.	394

1) Source: LSEG

Iowa Public Finance

Local Office

Iowa 2020-24
FA, Negotiated, Placement, Competitive
Ranked by Number of Issues

x000

Firm	# of Issues	Rank	$ amount
Piper Sandler & Co	**633**	**1**	**5,931**
D A Davidson & Co	271	2	1,380
PFM Financial Advisors LLC	238	3	5,394
Northland Securities	236	4	972
Speer Financial Inc	217	5	896
Robert W Baird & Co Inc	197	6	2,074
UMB Bank NA	122	7	488
Bankers Bank of Wisconsin	52	8	107
Baker Tilly Municipal Advisors	42	9	2,264
Morgan Stanley	41	10	1,825

Iowa 2024
FA, Negotiated, Placement, Competitive
Ranked by Number of Issues

x000

Firm	# of Issues	Rank	$ amount
Piper Sandler & Co	**107**	**1**	**980**
PFM Financial Advisors LLC	39	2	756
Speer Financial Inc	33	3	107
D A Davidson & Co	27	4	133
Northland Securities	14	5	54
Baker Tilly Municipal Advisors	8	6	200
RBC Capital Markets	6	8	309
Independent Public Advisors LLC	5	9	27

Iowa 2020-24
, Negotiated, Placement
Ranked by Number of Issues

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Firm	# of Issues	Rank	$ amount
Piper Sandler & Co	**317**	**1**	**2,492**
D A Davidson & Co	234	2	1,137
Northland Securities	152	3	574
Robert W Baird & Co Inc	42	4	396
RBC Capital Markets	40	5	3,836
UMB Bank NA	31	6	154
Morgan Stanley	26	7	1,408
Stifel Nicolaus & Co Inc	8	8	122

1) Source: LSEG

For information on our locations, visit pipersandler.com/locations.