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STRONGER TOGETHER

ANNUAL CONFERENCE & EXHIBIT

Housing Funding
The Unsolved Dilemma
Iowa League of Cities Annual Conference and Exhibit

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Overview of Presentation

Why are we all here?

A year ago, at this conference, we gave a presentation on the TIF Impact on Schools and County Budgets

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

One of the pressing items that we heard that day and continue to hear across the state as we visit with our clients is the need for housing solution for their workforce within their community.

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.

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…!)

1. The Problem

Big Picture… What Does Some of the "Research" Say?

- Prospective homebuyers and renters across the United States have seen prices surge and supply plummet during the coronavirus 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

Local Picture… Why Doesn’t the Developer Build to Demand?

- ## Money
  - Builder access to capital;
  - Risk adjusted return on capital;
  - Ability to deploy available capital at better returns elsewhere
- ## Developable Land / Infrastructure
- ## Builder Lack of Confidence that Demand will afford homes to be sold at reasonable margin
  - Affordability for Potential Buyers
  - Available loans for Potential Buyers
- ## Other Opportunities
  - “What is hindering somebody from coming in and building 25 new homes in “name your town”, Iowa?
  - “Why not just build in “nearby larger town”, Iowa?”

Translation = There is More Risk or Lack of Return Potential

Fortunately, the answer is simple: “Just Take on More Risk” (*sarcasm)

Source: Pew Research Center, Forbes.com

2. The Discussion

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, Abatement or TIF pay-go incentives (TIF 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 land & infrastructure costs**

Risk Characteristics

- **Developer**
  - Large amount of cash outlay before any lot sales
  - Need to be able to access lender capital to manage developer equity investment
  - Significant potential loss if lots don't sell or can't sell for original assumed price
- **Municipality**
  - No cash outlay

Discussion

- **What if this approach doesn't bring housing?**

Developer Funded, Abatement or TIF pay-go Incentives

Key Characteristics

- **Developer seeks incentives (tax abatement, TIF rebate, etc.)**
- **Developer purchases land**
- **Developer pays for infrastructure (grading, pavings, utility connections, etc.)**
- **Developer sells lots to cover infrastructure costs**

Risk Characteristics

- **Developer**
  - Large amount of cash outlay before any lot sales
  - Need to be able to access lender capital to manage developer equity investment
  - Maybe a TIF agreement with city to recoup infrastructure investments as TIF income occurs (many, many years later)
  - Significant potential loss if lots don't sell or can't sell for original assumed price
- **Municipality**
  - No cash outlay
  - Need to be able to access lender capital to manage developer equity investment
  - TIF agreement with developer obligates City to pay TIF, when received, to developer (many, many years later)

Discussion

- Tax Abatement vs. TIF Rebate (more discussion later)
- What if this doesn't bring housing?

Developer Funded, Municipal Assistance

Key Characteristics

- **Developer / Municipality partnership negotiated**
  - Municipality provides grant or constructs 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

- **Developer**
  - Not quite as large amount of cash outlay before any lot sales
  - Smaller need for access to lender capital – improves developer equity investment returns
  - Agreement contemplates how TIF, when received, is used between Developer and City
  - Potential loss if lots don't sell or can't sell for original assumed price is shared between City and Developer
- **Municipality**
  - Likely involves cash outlay of city up-front to help get development moving
  - City is exposed to success or failure of developer partner
  - Agreement contemplates how TIF, when received, is used between Developer and City
  - Potential loss if lots don't sell or can't sell for original assumed price is shared between City and Developer

Discussion

- Commons types of assistance (infrastructure build out)
- What if this doesn't bring housing?

City / Housing Authority Developed (most common for multi-family)

Key Characteristics

- Developer / Municipality partnership negotiated
- May or may not be developed upfront
- Authority purchases land
- Authority or Municipality pays for infrastructure (grading, pavings, utility connections, etc.)
- Authority sells lots to cover infrastructure costs

Risk Characteristics

- **Developer**
  - Potentially very little direct cash outlay before any lot sales
  - Potentially no need for access to lender capital – improves developer equity investment returns
  - May or may not include TIF agreement
  - Potential loss if lots don't sell or can't sell for original assumed price is borne mostly by Authority
- **Municipality**
  - Most of the up-front cash outlay is paid by Authority to get development moving
  - Authority needs access to lender capital – may require direct City support to get started
  - Authority is exposed to success or failure of developer partner
  - May or may not include TIF
  - Potential loss if lots don't sell or can't sell for original assumed price is shared between City and Developer

Discussion

- It seems that this approach likely would bring the targeted housing – what if there are no tenants?

Considering Various Incentives

	Developer No Incentive	Developer TIF rebate	Developer Muni Assistance	City Housing authority
Developer Takes on Risk		Partial	Partial	Partial?
City Takes on Direct Risk	✔	✔ Partial?	✔	
City Provide TIF Rebate			✔	✔
City Provide Tax Abatement		✔		

	Developer No Incentive	Developer TIF rebate	Developer Muni Assistance	City Housing authority
Developer Borrows / Funds			Partial?	
City Borrows / Funds			✔	✔

Who has the lower cost of capital?

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?

3. The Data

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
- Local Option Sales Taxes/Road Use Taxes
- Increased water and sewer utilization
- Taxable Valuation (Budget resources)
- Additional infrastructure to maintain
- Additional services

“Will the benefits outweigh the costs?”

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

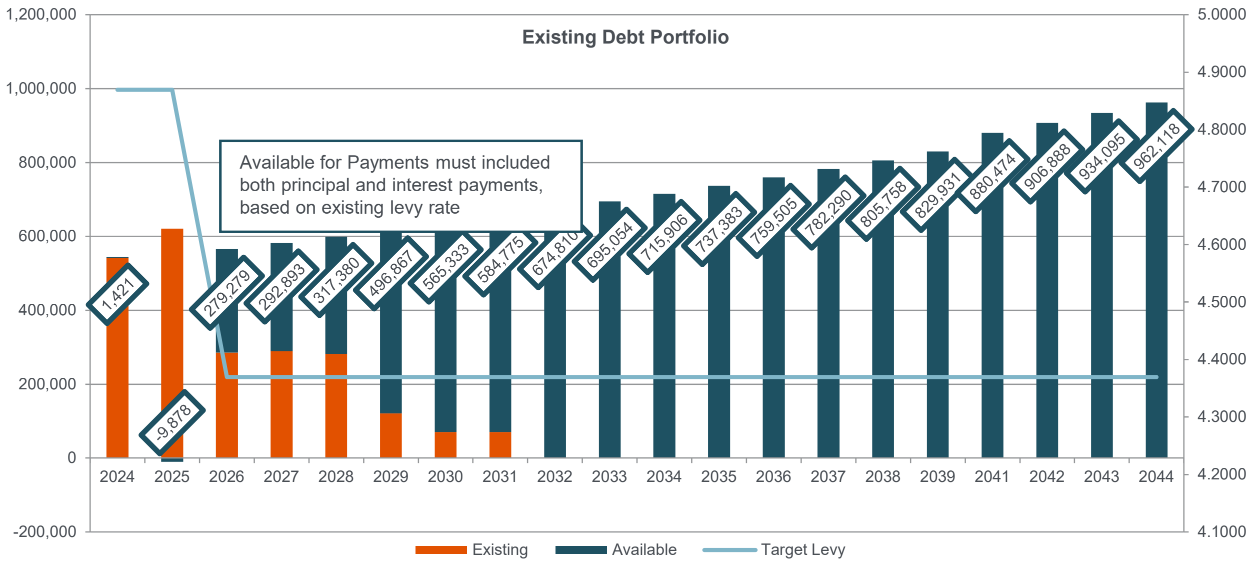
Debt Limit

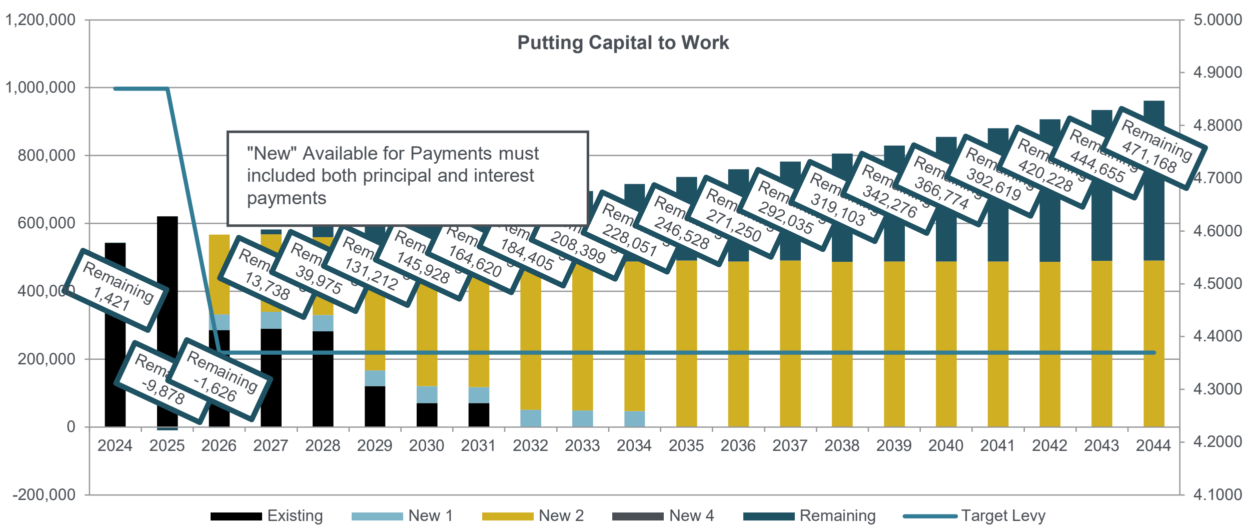
- "Bright Line Test"
  - 5% calculation on taxable property (before equalization / rollback, also known as assessed or 100% valuation)
- Utility Revenue debt is not included

Profile

- Property tax (Debt Service Levy)
- Other Resources (LOST / Road Use Tax / TIF Revenues / etc.)
- Utility Revenues (Water / Sewer / Storm Sewer / Electric / Gas 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

Consider a Housing Development (Scenario 1)

Tax Levy Rate Analysis

- Estimated Levy Rate: $38.2205 / $1000
  - Would pay $3,794,787 over 10 years
- Protect Levies (i.e. debt service, PPEL, ISL: $12.0479 / $1000
  - Would pay $1,196,194 over 10 years
- Available TIF Levy Rate: $26.1726 / $1000
  - Would pay $2,598,593 over 10 years
  - Assuming LMI = 25% would breakout to $649,648 LMI, $1,948,948 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

$400,000

Assessed value, building $40 million of market value

$2,000,000

Debt Limit Increase

$18 million

Total taxable valuation added

$3.8 million

Estimated total property taxes with $38.22 / $1000 overall levy rate

Consider a Housing Development (Scenario 2)

Faster build out, but less homes

Tax Levy Rate Analysis

- Estimated Levy Rate: $38.2205 / $1000
  - Would pay $3,277,316 over 10 years
- Protect Levies (i.e. debt service, PPEL, ISL: $12.0479 / $1000
  - Would pay $1,033,076 over 10 years
- Available TIF Levy Rate: $26.1726 / $1000
  - Would pay $2,244,239 over 10 years
  - Assuming LMI = 25% would breakout to $561,060 LMI, $1,683,180 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

$400,000

Assessed value, building $40 million of market value

$1,000,000

Debt Limit Increase

$9 million

Total taxable valuation added

$3.3 million

Estimated total property taxes with $38.22 / $1000 overall levy rate

4. The Solution

Consider Tax Abatement and TIF Rebate

Why would this be the best solution for the city?

Tax Abatement for the Developer

Developer can sell homes with the promise the that homeowner will be completely exempt from property taxes for the duration of the tax abatement.

TIF Rebate for the Developer

Developer has incentive for homes to be built as that increases the available dollars for TIF rebate.

Developer may be utilizing the anticipated TIF rebate for leverage/collateral with the bank provide funding to the developer.

Tax Abatement for the City

Typically easy to administer than a TIF rebated once a policy/ordinance is in place

If the developer doesn't build, there is no tax abatement.

TIF Rebate for the City

Annual process (in most instances) to certify the amount of rebate to be claimed with the TIF certification

If the developer doesn't build, there is no TIF rebate owed to the developer.

There Is Not a "One Size" Fits All Solution

Goal Setting and Priorities

- Is new housing needed?
- Is new housing beneficial to the community?
- How do you keep a "good developer" engaged?

Housing Funding – The Partially Solved Dilemma

- Most of the time, you are likely to lead with Tax Abatement or TIF Rebate

But… what if this is not enough to attract developers to build housing?

5. 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

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Our Culture

- Realize the power of partnership®

- Our 128+ year legacy has perpetuated because of the **partnerships we forge**—among our clients, our employees and the communities where we live and work.
- Our **empowered entrepreneurial culture** recognizes the value of our individual employees and gives them the flexibility to pursue opportunities.
- We are **collaborative, not prescriptive** across teams rendering unique solutions.
- Our teams are **intelligent and industrious**—we consistently roll up our sleeves to dig deeper and go farther for clients and we know where to focus our resources for maximum return.
- **Diversity, equity and inclusion**—we commit to encouraging and valuing inclusivity because every partner contributes unique perspectives.

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Public Finance

- National Platform, Regional Expertise

- Piper Sandler consistently ranks among the nation's leading underwriters.
  - In the negotiated and private placement market, we have a longstanding reputation as a leader in the municipal bond issuance industry[1]. Supported by a broad national platform, our expert teams leverage localized knowledge to facilitate the issuance of tax-exempt and taxable debt across a range of sectors and services.

Our services include:

- ✔ MUNICIPAL BOND UNDERWRITING
- ✔ PRIVATE PLACEMENTS
- ✔ FINANCIAL ADVISORY
- ✔ VARIABLE RATE REMARKETING & UNDERWRITING
- ✔ MUNICIPAL DERIVATIVES & REINVESTMENT PRODUCTS

150+ Professionals

42 Offices

27 States

1) Ranked in the top 3 based on number of negotiated and private placement senior/sole managed long-term transactions, and ranked in the top 10 based on par value for each of the last 7 years; Source: Refinitiv, 2023.

Sector Coverage

- Charter Schools
- Healthcare
- Higher Education
- Hospitality
- Housing
- K-12 Education
- Nonprofits
- Project Finance
- Senior Living
- Special Districts
- State & Local Government
- Transportation

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- Transportation

Our Services

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

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