What's Next for Burlingame?

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The Construction Experts Group

In May 2008, City Manager, Steve Barwick, and City Council convened a group of local construction & development experts known as the Construction Experts Group to investigate ways to lower the cost of Burlingame Phase 2.

The Construction Experts Group:

Bob Daniel * Bruce Gentry * Dave Bellack * Howie Mallory * Jim DeFrancia * John Olson * John Sarpa * John Slotkin * Marsha Cook * Mike Maple * Nate Waldron * Richard Wodehouse * Steve Resnick * Steve Stunda * Tom Dugan * Ward Hauenstein

Purpose:

The group is charged with making recommendations to City Council with regard to cost savings measures for all future phases of Burlingame as well as for future affordable housing developments.

The areas of study that the group is looking at include, but are not limited to:

- **Density**
- **Building Architecture**
- **Unit Design & Finishes**
- **Construction Materials and Methods**
- **Business Model / Project Delivery Model**
- **Partnerships**
- **And Much More**

The group is presently working with City Staff and the Poss/DHM design team and hopes to have recommendations for City Council for future phases of Burlingame by the end of August 2008.

Why Bond Financing?

Per discussions at the 2007 Housing Summit, City Council directed staff to prepare a plan to leverage Housing Fund revenues so that land could be purchased and construction undertaken NOW by using debt, rather than relying solely on a pay-as-you-go approach and waiting for enough cash to accumulate to carry out their housing plans...

Pros	Cons
Council made a strategic decision to use existing Housing Fund cash balances to buy available, developable land NOW before it became unattainable. These parcels include: - 488 Castle Creek - 517 Park Circle - 312 West Hyman - 802 West Main - BMC West	Holding cash would have increased flexibility prior to issuing debt. Who knows what parcels might have become available and at what price?
Bond financing permits the City to use its excellent credit rating to borrow money at a low cost. Interest rates on the bond issue are expected to be in the range of 4-6%.	By using cash on a pay-as-you-go basis, you avoid paying any interest at all
Construction and land costs in Aspen have been increasing at rates that significantly exceed the cost of borrowing money.	If construction and land costs decrease over the lifetime of the bonds , then no savings will accrue to this approach
It is less expensive for the City to borrow money today in order to avoid escalating costs in the future. The community also gets the benefit of the housing today while paying for it later in cheaper dollars.	If the City backs the revenue from the RETT/Sales Tax with a General Obligation pledge, it is conceivable that, should those sources fall short of being able to pay the debt service, a property tax would have to be collected in order to avoid default on bond payments

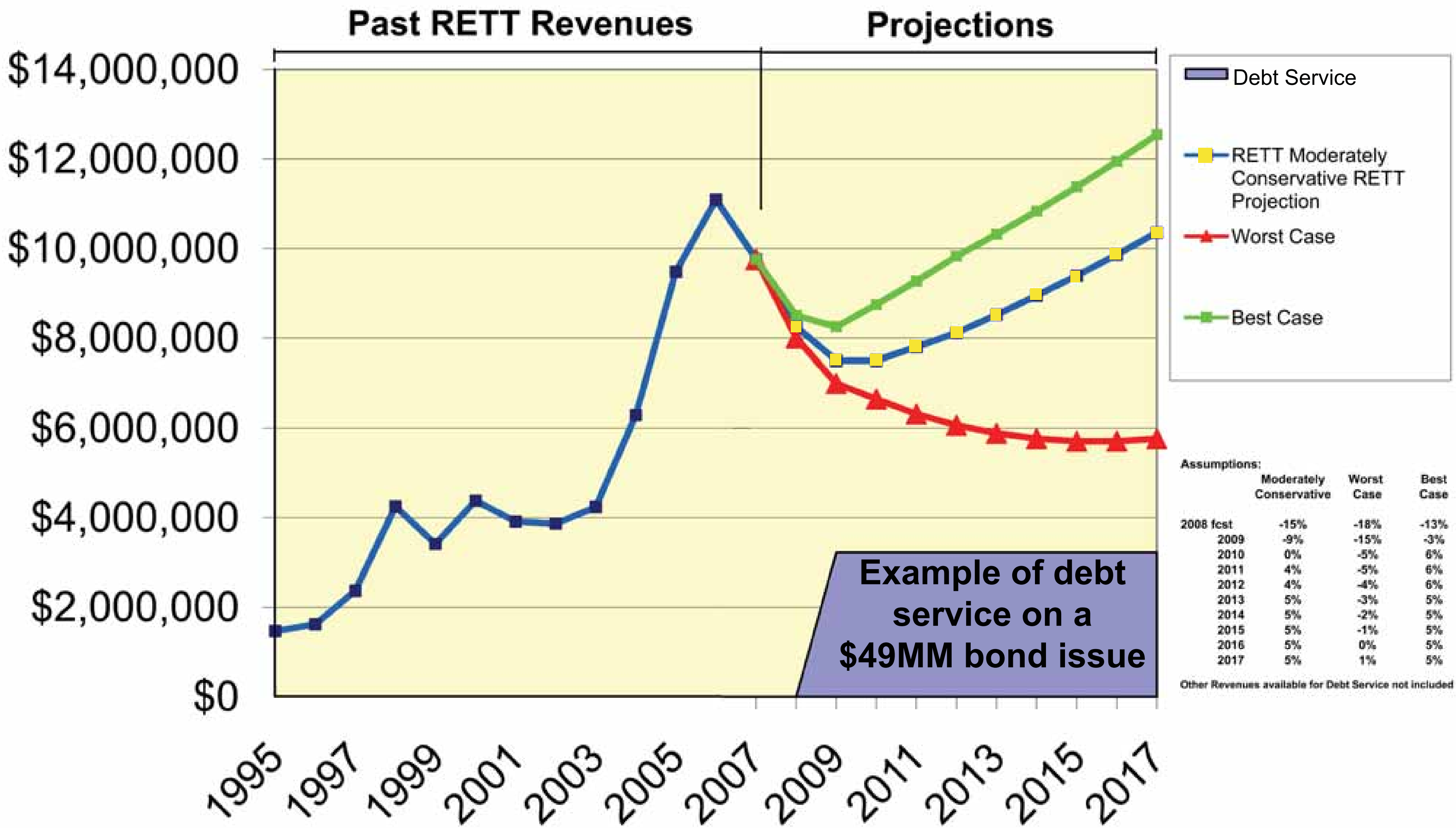
How does Bond Financing Work?

- Bonds are not new taxes.
- Bonds are sold to investors and are promises to repay amounts borrowed in the future with interest.
- Proceeds from bonds are used to acquire land and build housing at today's construction prices.
- The bonds will be paid back from future Affordable Housing Fund revenues, primarily the Real Estate Transfer Tax.
- Some and possibly all of the bonds will be tax exempt. This means that the interest rate is lower than even US Government bonds for a similar term.
- Bonds are not something new. The City of Aspen has utilized debt financing in recent years to finance or re-finance housing such as Burlingame Seasonal, Truscott Place and Marolt Ranch. The City has also used debt financing or re-financing for the swimming pool at Iselin Park, the clubhouse and restaurant at the municipal golf course, renovation of the Ice Gardens, the construction of ball fields, tennis courts, basketball courts, trails and pedestrian walkways and landscaping throughout the City's park system, renovation and reconstruction of the Isis Theatre and more.

Can We Afford Bonds?

- The Real Estate Transfer Tax has generated $8,170,000 on average over the last 5 years. 2008 Real Estate Transfer Tax proceeds are expected to be near that average and can support up to $100 million in debt.
- High real estate values and correspondingly high real estate transfer taxes are likely to continue into the future.
- Other housing fund revenues will generate $1,400,000 per year.
- This bond issue is expected to be approximately $49,000,000. The annual debt service on this amount is conservatively projected to be approximately $3,225,000.
- The bonds will be structured to be paid back over 30 years, though earlier repayment is possible.
- City's Bond Rating from Moody's Investors Service is Aa2. This is a very good rating and assures investors that the City's finances and tax base are strong and that repayment can be expected.

Real Estate Transfer Tax Projections and Example of Debt Service



Assumptions:

	Moderately Conservative	Worst Case	Best Case
2008 fcst	-15%	-18%	-13%
2009	-9%	-15%	-3%
2010	0%	-5%	6%
2011	4%	-5%	6%
2012	4%	-4%	6%
2013	5%	-3%	5%
2014	5%	-2%	5%
2015	5%	-1%	5%
2016	5%	0%	5%
2017	5%	1%	5%

Other Revenues available for Debt Service not included

Examples of Debt Financing Utilized by the City of Aspen

The issuance of debt is not an unusual way for the City of Aspen to pay for capital projects. The City of Aspen's debt issuances that remain outstanding in some amount include:

▪ **Parks and Open Space Sales Tax Revenue Bonds, Series 2001**	$10,780,000
▪ **General Obligation Housing Bonds, Series 2001A**	$7,635,000
▪ **General Obligation Housing Bonds, Series 2001B**	$5,105,000
▪ **General Obligation Refunding Bonds, Series 2003**	$7,930,000
▪ **Refunding Certificates of Participation, Series 2004**	$3,040,000
▪ **Sales Tax Revenue Refunding Bonds, Series 2005**	$12,380,000
▪ **Parks and Open Space Sales Tax Revenue Bonds, Series 2005B**	$14,900,000
▪ **Taxable Certificates of Participation, Series 2007A (Isis Theater)**	$8,405,000

As of December 31, 2007, the City had as a total outstanding debt from these issuances = $58,585,000

The City is subject to a legal debt limit for general obligation bonds of 20% of assessed value of real property.

That limit is calculated at $246,145,796 for FY 2007. Current total net debt applicable to this limit is $39,640,000, leaving a legal limit debt margin of $230,815,796.