



## Legislation Text

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### City Strategies for Maximizing the Use of Private Activity Bonds

**Presenter:**

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**Summary:**

According to the most recent Council of Development Finance Agencies report, the issuance of private activity bonds (PAB) is on the rise nationwide. From 2015 to 2016, PAB use increased 67% for a total of \$20.4 billion in PAB funded activity. Government entities act as conduit issuers of PAB, often collecting fees for service, while assuming no debt responsibility. Though PAB can be used for multiple purposes, some of which include light manufacturing, redevelopment of blighted areas, and capital projects for qualified non-profits, by far the most common use of PAB is for the production of affordable single- and multi-family housing. In 2016, 90% of PAB issues nationwide were used to finance the development and preservation of affordable housing. Since 2015, 100% of PAB issued in the El Paso County region, including the City of Colorado Springs, has been used to finance affordable housing.

The amount of available PAB (called the Volume Cap) is determined annually based on population. The City's 2018 volume cap, as determined by the Colorado Department of Local Affairs, is \$24,200,033. El Paso County's 2018 volume cap is \$10,482,833. By September 15th of each year, the City must decide whether to issue bonds for a specific project or projects, assign the City's volume cap to another government entity such as El Paso County (EPC), assign the City's volume cap to another issuer such as the Colorado Housing Finance Authority (CHFA), or relinquish its volume cap to the statewide balance for use on other projects in Colorado. In recent years, the City has routinely assigned its volume cap to El Paso County.

Rather than assign its volume cap to El Paso County in 2018, staff recommends retaining the City's allocation of PAB to support various development goals. Strategies for maximizing the City's use of PAB include:

1. Provide overview of PAB types and potential uses for City Council and staff.
2. Reference capital plans (internal and external) to identify and develop a prioritized list of PAB eligible projects.
3. Explore barriers to PAB use for redevelopment of blighted areas and construction of small manufacturing facilities.
4. Identify housing developers using PAB in their funding stack & provide info about the City's current housing needs, volume cap, and a means to access PAB funding.
5. Consider an MOU w EPC for PAB use regionally. The MOU would establish a framework for

issuer and ongoing compliance fees, as well as establish priorities for PAB use.

6. Increase awareness of benefits of tax-exempt financing for local entities/developers.
7. Pair City entitlement HOME funds w PAB for affordable housing projects to ensure timely expenditures and potentially generate ongoing CDD revenue stream.
8. Consider implementation of a credit enhancement program for qualified non-profits.

**Previous Council Action:**

Granicus File 17-1041: 2017 Resolution to Assign PAB to El Paso County approved by CC.

**2018 TIMELINE:**

July 9, 2018 - Overview of PAB types and potential uses presented at CC Work Session.

July 23, 2018 - Resolution to retain PAB allocation and identify use for carryforward introduced at CC Work Session. Single- or multi-family housing is the most common. Industrial Development projects cannot use carryforward.

August 14, 2018 - Resolution on Consent Agenda.

September 15, 2018 - Notification to the Colorado Department of Local Affairs, Division of Housing, of the City's election to carryforward its volume cap and the intended use.

**Background:**

PAB is one of many financing tools available to private developers. As a result, PAB use is sensitive to local market conditions such as the cost of conventional financing, the experience level and willingness of the developer to use PAB, ease of access to PAB funds, and significantly, the overall volume cap of the issuer. Ideally, strategies to maximize the use of PAB in Colorado Springs will accomplish desired City strategic goals and be tailored to the needs of the development community.

PAB can be carried forward for a maximum of three years. Since 2015, the City's and County's combined volume cap has been used to issue \$53,253,300 for a Single-Family Mortgage Credit Certificate Program and \$68,705,000 for the construction and acquisition/rehab of senior and workforce housing. PAB projects in the pipeline for 2019 include a 210 unit workforce housing project that has received a PAB allocation of \$30M from El Paso County.

**Financial Implications:**

PAB issuers typically charge an initial fee and an annual compliance fee. The fees cover administrative time as well as annual monitoring of projects for compliance. Fees vary as a percentage of total development costs and typically range from 15-20 basis points or 1.5-2%. Fees can be negotiable based on the ability of the project to absorb the cost, the willingness of the developer to use PAB as a financing tool, and the recommendations of bond counsel.

All expenses related to bond issuance are paid by the developer. These include legal fees, a direct allocation fee payable to the Colorado Department of Local Affairs, and servicing costs of other 3rd parties involved in the bond transaction. Significantly, the City assumes no liability for repayment of the bonds.

**Board/Commission Recommendation:**

N/A

**Stakeholder Process:**

N/A

**Alternatives:**

N/A

**Proposed Motion:**

N/A

N/A