Metro District Financing

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Thank you for this opportunity to address the Council

- HBA response to the February 24th, Colorado Springs Metro Districts and Taxes presentation.
- This presentation will address the concerns identified when shifting bond financing to lot pricing.
- We look forward to further discussions and the opportunity to offer a full response to all the District 101 presentations. There are additional issues and services provided by districts that will be important to discuss through the future committee structure.

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Introduction

- Members of HBA are here to assist and answer questions.
- We hope to clarify several of the assumptions from the February 24th- State and Federal Tax Impacts to Homeowners Inside Metro Districts presentation.
- Financing development and home building is a complicated business. Using estimations in conjunction with specific costs can skew example calculation results.

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Clarification points fall into two categories:

1. What goes into the cost?

2. How does the buying process react to the cost?

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Preliminary Comments:

- The math used in the February presentation was correct, however……..
- The two small district examples have no major arterial and utility extensions, no parks to build, etc.
- Some districts front end $30 - $50,000 per lot

What goes into the Cost ?

- District financed costs were divided by the number of lots - $1,362,000 / 76 lots = $17,912 per lot.

- The presentation examples compare the impact of this amount in the lot cost vs. financed by municipal bonds.

  1. Cost estimate does not cover ALL the development costs.
  2. And does not include interest on those costs, though the mill levy IS paying interest.

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- The developer borrows capital or commits equity to the construction of infrastructure, at a rate of 3 to 5 times the municipal financing rate.
- One year of interest on that amount increases lot cost to $20,609.
- If project sells out in 2 years at 3 lots per month, the costs go to $23,881.

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	$	1,362,000
Interest rate		15%
Interest cost	$	204,300
Total cost	$	1,566,300
Lots		76
Cost per lot in year 1	$	20,609
Carry for two years (3 per month)	$	(248,655)
Project interest cost	$	(452,955)
Interest cost per lot	$	(5,960)
Cost per lot	$	23,881
Difference		33%

Additionally . . .

- Industry Metric- lot cost is 18-22% of the total cost of the house.
- This is borne out by national statistics that have remained steady in boom and bust times. Shinn Associates, a respected national consulting firm, confirms this national trend.
- For $17,921 per lot cost, the house price does not go up by that amount because a builder cannot meet this metric – the house price must go up.

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Effects on House price			
Current home price	Lot Price increase	New lot price	Projected home price with lot at 20%
$ 400,000	$ -	$ 80,000	$ 400,000
	$ 17,921	$ 97,921	$ 489,605
	$ 23,881	$ 103,881	$ 519,405

- This calculation is the most important advantage of municipal financing.
- The simple assumption ripples through the pricing and has a much broader impact.

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The National Association of Home Builders, 2020 Priced-Out Study estimates that for every $1,000 in increased housing cost, 241 households can no longer afford to purchase a home in the Colorado Springs metro area.

Effects on Purchasing Power				
	# Households priced out of market /$1000	Lot price increase	Market lost	% of EPC households
	241	$ 17,921	4,319	1.44%
	241	$ 23,881	5,755	1.92%
	241	$ 89,605	21,595	7.20%
	241	$ 119,405	28,777	9.59%

NOW WE ARE IMPACTING AFFORDABILITY.

Source: https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=271366&channelID=311

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Differences in Interest Rates and Cost of Capital

- A risk averse pension fund look for long term income based on the willingness of the taxpayer to pay his taxes;
- Not the same risk profile as a developer trying to get a project off the ground for two years even for the smallest project.

On the Buyers side of this question

What happens in the home purchasing process?

Impact on down payments

	Lot price increase	Additional Down Payment
Councilman Knight	$ 17,921	$ 3,584
with multiplier	$ 89,605	$ 17,921
With additional cost of carry	$ 23,881	$ 4,776
with multiplier	$ 129,338	$ 25,868

Appraisals and Mortgage Financing

- Increased lot price and home price causes an immediate impact on the ability of buyers to get a mortgage

- A house priced with lot increases will not be appraised for that value:

  1. Across the street or in the area same <u>house</u> on same <u>lot,</u> priced higher, will not get the value for the appraisal.

  2. Without the appraisal, the mortgage lender will not lend because the secondary market will not buy the loan.

Impact on other property taxes

- The February presentation does not consider the impact of the increase of ALL OTHER PROPERTY TAXES with the lot price in the sales price.

- The assessor will take the sales price of the home, increase it for the lot cost adjustment and all taxes will go up.

Conclusion

- The real impact of removing District financing is to cause new housing costs to rise dramatically over night.
- The short- and long-term effect of the direction will be to exacerbate the affordability and availability of housing.
- The example projects used in the February presentation are not indicative of the majority of Districts. The importance of District financing for larger projects to manage the upfront expenses created by City requirements cannot be overstated.
- The HBA is looking forward to participating in more in-depth discussions about the other important roles that Districts play in our community.

Metro District Overview Discussion

Questions?

Thank you

For more information or discussion contact

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