



Finance Committee Summary

Wednesday, October 3, 2007 1:30 p.m.

3rd Floor Council Conference Room

Committee Members Present: Faatz, Chair; Boigon, Vice-Chair; Brown, Lehmann

Committee Members Absent: Robb

Other Council Present: Madison, Montero

Agenda:

- 1) Certificates of Participation for Housing of the Chronically Homeless
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1) **Certificates of Participation (COPs) for Housing of the Chronically Homeless:**

Committee Discussion

Councilmember Faatz stated that various Councilmembers intended on supporting a proclamation sponsored by Councilmember Hancock on behalf of the Department of Human Services for use of COPs to construct and create 200 units of housing for the chronically homeless. The Councilwoman said the proclamation spurred many questions that needed to be answered related to the financing, planning, and impact to the City for a project like this. Karen Avilés, City Attorney's Office, explained that no official action at Committee is required on this matter. A proclamation of Council is for the purpose of communicating a sense of Council on a legislative or policy matter, and may not be used by Council to take official action. A proclamation is not legally binding. In addition, wordsmithing of the proclamation, if pursued, is needed because some of the language that is used is misleading as it pertains to a lease/purchase or "debt" of the City, stated Ms. Avilés. She noted that a COP transaction is not a "debt" of the City. A typical process regarding COPs transactions include a City asset being sold, a lease back to the City with agreed upon rent on an annual basis, and other documents regarding landlordship and the financing structure to pay for the construction and development of the project. If a COPs transaction is pursued, a lease transaction does require an ordinance approval by Council. A clause in TABOR legislation requires the annual appropriation in the budget.

Councilmember Faatz said she has a philosophical difference regarding the word "debt". She noted that it doesn't matter what word you use, it is still a debt. She noted that this project was part of the Infrastructure Task Force recommendations, but was taken off the list from going to the voters for funding through General Obligation Bonds (GO). The Task Force felt that other funding mechanisms (COPs) would be more appropriate than using GO bonds. The Councilwoman stated she asked Treasury to help her get to factual information regarding a financing structure. Bob Gibson, Treasury, reported that as of August 15, 2007, the City has more financial obligations in COPs than GO bonds. COPs transactions equal \$423 million and GO Bonds amount to \$422 million in debt. The three major costs of COPs

are attributed to the Department of Human Services Building (\$51 million), African American Library, and the Webb Building (\$250 million). Smaller COPs projects equal \$120 million. Currently, the City holds an AA+ bond rating, but more discussion is warranted regarding debt policies. With COP transactions, revenue streams must be identified, and in this proposal for homeless housing, no revenue stream was identified to pay for the COPs and is concerned if City staff is proposing to use General Fund money to repay the COPs, stated Councilmember Faatz.

Roxane White, Manager of Human Services, explained that when the homeless housing project was taken off the Infrastructure list, the proclamation was drafted to assure citizens that the project was not forgotten. The proposal is consistent with the ten year plan to end homelessness – the goal is to create 942 permanent supportive housing opportunities. The funding plan includes utilizing existing resources and developing new ones with new partnerships for the housing investment to grow. Ms. White noted that many partners are helping including the Salvation Army, Coalition for the Homeless, and St. Frances to name a few. She added that once the financing structure is established (revenue stream identified), total pricing, and locations are identified, an ordinance would be filed reflecting all this information. A COP transaction does not require a vote of the public, and it is the intention of City staff to conduct its due diligence and go through the entire Council process for COP financing with hopes of finalizing a plan by early next spring.

Jamie Van Leeuwen, Human Services, provided information regarding homeless strategies as follows:

- Ten-year funding strategies include: 50% public funding, 25% foundation support, 25% corporate/individual support. COPs funding is part of the public funding category.
- Permanent supportive housing includes accountability requirements.
- Average monthly income of homeless tenants increased from \$185 at entry level to \$431.
- Detox/incarceration stays decreased by 60% and 44% fewer days for emergency services are reported since the two-year program began (detox treatment and emergency rooms are among the most costly city services). After one year in housing, detox admissions decreased by 79.6%. After two years the average detox treatment cost dropped to \$8,732 per person from \$10,373 per person from living on the street.
- Two-thirds of money currently spent on detox services comes from General Fund money.
- Proposal would include the financing and construction of 100 units of new construction and 100 units in existing facilities in three separate sites (not identified yet).
- Estimated cost is \$20 million and is based on the prior Infrastructure Task Force work.
- Denver Human Services (DHS) would cover COP payments not covered by general fund cost reductions. Total funds needed to pay rent payments is approximately \$1.6 million annually. In 2008, DHS would have money to fund all the annual rent payments from increased federal and state incentive funds.
- A competitive process will be utilized to hire a homeless provider to develop and manage the housing and service programs.

Questions from Councilmembers:

- 1) Clarify the General Fund relationship to this proposal (Brown). There will be no new costs to the General Fund. Funding would be done through COPs and DHS ability to pay for annual rent by 2008. (Van Leeuwen)
- 2) What would the financing structure look like based on the \$1.6 million rent applied to the total project cost of \$20 million (Faatz)? There is not enough information provided to answer that question. Until a financing plan is identified (including interest rates, payments, etc.) a formula and process cannot be stated. All COPs agreements are structured differently. GO bonds are the most secure method of financing and generally, COPs cost more (interest rates). (Gibson)
- 3) Is other City funding being considered, such as CDBG money (Montero)? Yes, the City is considering CHFA opportunities. (White)
- 4) Will the units be spread out over the City (Brown)? Yes, it is not the intent of the City to place all 200 units at one location. (White)
- 5) How is DHS assured of increased federal and state funding and would the City be trading off child safety and welfare for bricks and mortar (Faatz)? The department has history with increased funding related to TANF monies (discretionary funding) similar to mill levy funds. The department can use the money as appropriate at the local level and child welfare would not be jeopardized. Child welfare/services are fully funded. (Jay Morein, Human Services)
- 6) With additional money in 2008 from DHS, are there policies in place to spend that money and would employees be laid off (Faatz)? Budget cannot confirm that the money wouldn't be needed for the agency and the issue is about prioritization of services. Savings from DHS would be directly related to homeless measures. No lay offs are anticipated. (Ed Scholz, Budget & Management)
- 7) Is the City reducing its annual appropriation to Denver Health as a result of a reduction of costs related to the homeless initiative (Faatz)? No. (Scholz)
- 8) What happens if the units outlined in the homeless plan are not created (Brown)? The homeless crisis is occurring now, and if the plan does not continue with its goals, the high trend of homelessness will begin again. The detox cost alone costs \$275 per night. (White)
- 9) Can the City propose to voters the question of whether or not the City should use COPs funding for financing homeless housing units (Faatz)? The City/Council could propose anything to the voters. (Avilés)

Councilmember Faatz asked the Councilmembers present to provide their position on going forward with a proclamation:

Lehmann: support

Boigon: support

Madison: support

Brown: not support (questions about location)

Faatz: not support

Robb: Councilmember Faatz indicated that a communication was sent to Councilmembers regarding her support of a proclamation.