Module 3 Case Study: Financing a Downtown Albany Redevelopment

This is a hypothetical scenario built on a real program. New York State's Championing Albany's Potential (CAP) Initiative and the Downtown Albany Strategy are real: $400 million in State funding, $200 million of it directed at downtown revitalization through a Transformative Projects Fund, a Housing Investment Fund, and a Community Investment Fund, with applications opening in March 2026. The particular building, the award amount, and the bond terms below are hypothetical for this exercise. The numbers here are made up for the exercise only.

Under the Downtown Albany Strategy, the City of Albany is planning to redevelop a vacant downtown office building into a mixed-use property with ground-floor commercial space and upper-floor offices. The project is expected to cost $40 million upfront, paid at the time of contracting. The building is expected to have a useful life of 25 years. In addition to the construction cost, the City estimates that annual maintenance and operations costs will be $600,000. Tenants pay their own utilities, insurance, and interior upkeep under their leases, which is why the City's direct operating cost is limited to this amount.

The City has been awarded **$6 million from the CAP Community Investment Fund** toward the project. The remaining cost must be financed by the City through the issuance of a municipal bond.

Once the building opens, the City expects approximately $3.2 million in annual revenues from the property, consisting of $1.5 million from ground-floor commercial leases, $1.2 million from upper-floor office tenancy, and $500,000 from structured parking on the site. These revenues will continue each year over the building's useful life and will be used to offset maintenance costs and debt service payments.

For purposes of capital budgeting, the City will use a 5 percent discount rate, reflecting the cost of capital and the interest rate for municipal borrowing. The Mayor has asked you, as the assistant for capital projects, to calculate whether the project is financially sustainable given expected revenues and costs, and to determine how much borrowing will be required.

The City plans to issue a 20-year municipal bond to pay for the portion of the construction cost not covered by the CAP award. The proposed bond carries a 4 percent coupon rate, but the current market interest rate for comparable bonds is 5 percent. Because of this difference, the bond may sell at a discount, and the City must determine the price at which the bonds will sell.

Your task is to analyze costs for this project, determine the bond amount, and prepare a memo to the Mayor.

Step 1: Calculate the Net Present Value (NPV)

Calculate the present value of the annual property revenues and maintenance/operating costs over the 25 years of the building at a 5% discount rate.

Then compare that present value against the cost of the project **two different ways**, because they answer two different questions:

1. **The project's NPV.** Compare the present value of the cash flows with the full $40 million construction cost. Is the project worth doing on its own merits, regardless of who pays for it and whether the City receives the grant or not?
2. **The City's NPV.** Compare the same present value with only the portion the City must fund itself, after the $6 million CAP award. Is the project worth doing *from the City's budget perspective*?

Do these two calculations give the same answer? Explain what the difference between them tells you about how intergovernmental aid changes a capital decision.

Step 2: Calculate the Bond Price

Albany decides to issue a bond to pay for the share of the construction cost the CAP award does not cover. Since the City plans to issue a 20-year municipal bond with a 4% coupon rate while the market interest rate is 5%, you must determine the price at which those bonds will sell.

Answer the two questions in order:

1. At what **price** will a bond with a $1,000 face value sell? Will that be a **discount, premium, or par**, and why?
   You only need to price a single $1,000 bond — not the whole issue. Slide 23 of the lecture works through an example of exactly this calculation. Note one difference: the coupon in that example is paid semiannually, while the coupon in this case is paid once a year.
2. Explain why the City must issue **more than $34 million** in face value in order to actually receive $34 million. You do not need to calculate the exact amount.

Use generative AI's help if needed for the calculation. But you need to understand the difference between the bond's face value and what the city actually receives.

Step 3: Determine the yearly debt service payments

A bond that pays only interest each year would leave the City owing the entire principal in a single payment at maturity. To avoid that, the City will structure the borrowing as **serial bonds with annual debt service expenses**: one constant payment each year for 20 years that covers both interest and the repayment of principal, the way a mortgage does.

Because investors price this debt at the 5 percent market rate, calculate the annual payment required to repay the amount borrowed, over 20 years, at 5 percent.

Slides 13 and 14 of the lecture cover the Excel function you need for this.

Then compare that payment to the property's revenues. Are annual revenues sufficient to cover both the debt service payment and the maintenance/operating costs? If not, how much additional funding is needed from the City each year?

Step 4: Summarize Your Analysis in a Memo to the Mayor

What to submit:

Write a 1-page memo to the Mayor that summarizes your findings. Your memo should:

- Report both net present values from Step 1, explain what each one means, and interpret the difference in plain language.
- Summarize your bond analysis, explain the bond price and structure, and describe how the bond can support the redevelopment project.
- Show whether property revenues are sufficient to cover debt service and maintenance costs, and if not, how much additional funding is required each year.
- Discuss how the project's sustainability might change if downtown commercial vacancy rose and lease revenues fell short of projections, or if the CAP award were reduced in a later round.
- Identify other factors that the Mayor and City Council may consider when deciding whether to proceed, including the goals of the Downtown Albany Strategy that a purely financial analysis does not capture.

AI-use disclosure: At the end of your memo, note which tool you used, what you asked it to do, and one thing it produced that you checked and corrected. Bond and annuity calculations are an area where these tools confuse the coupon rate with the market rate, or the price with the face value — catching that is a strong answer, not a weak one.