City of Long Beach
Working Together to Serve

Memorandum

Date: September 25, 2017

To: Patrick H. West, City Manager

From: Amy J. Bodek, Director of Development Services
John Gross, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **Local Bond Measure for Affordable Housing**

On May 2, 2017, the City Council adopted 29 recommendations on revenue tools and incentives for the production of affordable and workforce housing. Please consider this memorandum as a response to Recommendation 3.1: *New Initiatives for Development and Implementation*, which directs staff to explore a local bond measure as a one-time source to capitalize the Housing Trust Fund.

Historically, municipalities in California have been involved in financing programs that facilitate the development, expansion, or retention of affordable housing projects. Bond financing is one method that municipalities have used to finance these projects. There are three primary types of bonds to finance affordable housing projects: general obligation bonds, third-party revenue bonds, and municipal revenue bonds. The viability of these bond financing vehicles depends on a municipality's ability to generate revenues that pay or subsidize the debt service payments on the bonds.

For municipalities, the primary method to generate funding for affordable housing projects is the issuance of general obligation bonds. These bonds are supported by an increase in property taxes or other local special tax, both of which require two-thirds voter approval under Proposition 218. Municipalities are responsible for the debt service payments of general obligation bonds. As an alternative to general obligation bonds, municipalities have also issued third-party revenue bonds or municipal revenue bonds, which do not require voter approval.

Third-party revenue bonds have been issued by Joint Power Authorities (JPAs), such as the California Municipal Finance Authority (CMFA) or California Statewide Communities Development Authority (CSCDA). The JPAs structure the bonds and assume ultimate responsibility for the debt service payments. Municipalities are only responsible for conducting a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing, and have no financial responsibility for repaying the bonds. The ability to issue third-party revenue bonds is dependent on the ability of outside organizations to generate revenues.

In the past, municipal revenue bonds have also been issued by redevelopment agencies (RDAs). RDAs used redevelopment tax revenues to pay debt service payments. However, due to the dissolution of RDAs by the State of California and the elimination of the associated tax revenues, the use of RDA municipal revenue bonds is no longer an option.

In summary, with the loss of RDA tax revenues and the shortage of other financing support for affordable housing projects, local funding through a voter-approved general obligation bond or a voter-approved special tax is the most viable method of financing.

The following discussion provides more detail of the three general types of bond financing available for affordable housing projects.

General Obligation Bonds
Considering the shortage of local funding available to support affordable housing initiatives, some local governments in California have pursued general obligation bonds to fund affordable housing projects. Most recently, Alameda County, Santa Clara County, and the City of Los Angeles obtained authorization to issue general obligation bonds. General obligation bonds require a two-thirds voter approval of the bond measure. The debt service payments are paid from increased property tax revenues. The type of affordable housing projects that may be financed by general obligation bonds depends on the language specified in the bond measure. The use of general obligation bonds can support a variety of government-owned affordable housing initiatives including:

- Down payment assistance programs
- Rehabilitation grants/loans
- Land purchase/write-downs
- Loans for construction/acquisition
- Homeless projects (bond proceeds must be used for property, not services)
- Loan programs directed to seniors, veterans, disabled, and other targeted groups
- Special needs and supportive housing

Third-Party Revenue Bonds
Third-party JPAs, such as the CMFA or CSCDA have issued revenue bonds to finance new construction, acquisition/rehabilitation, and refinancing of affordable housing projects. Third-party revenue bonds have allowed developers to use tax credits and tax-exempt financing to subsidize or fund affordable housing projects. The most common types of housing projects are multi-family and single-family housing projects, both of which may be financed by revenue bonds through a JPA.

- Third-Party Multi-Family Rental Housing Projects: These types of projects are the most prevalent projects financed with the assistance of public agencies due to the defined revenue stream pledged to repay the bonds. The debt service payments are secured by the rental income generated by the housing project, with the JPA assuming ultimate responsibility for repaying the bonds. Other types of affordable multi-family projects include single-room occupancy hotels, transitional housing and homeless facilities. Many of these projects are supplemented by the third-party issuers using grants, tax credits, subordinate loans, contribution of land, and annual revenue streams pledged as additional support for the project.

- Third-Party Single-Family Housing Projects: These projects are the most difficult to finance due to the legal restrictions on the resale of the property. These bond financings are secured by the mortgage on the property and repaid by the occupant. The JPA assumes ultimate responsibility for the debt service payments. Financing assistance for the occupants are available in the form of down payment subsidizes, grants or loans.

The City of Long Beach has facilitated TEFRA hearings to support a significant number of third-party revenue bonds issued to finance affordable housing projects. In most cases, these types of projects also require a local source of subsidy to make them financially feasible. Since 2008, the City has conducted 15 TEFRA hearings to finance an aggregate of $384.5 million in affordable housing projects totaling 2,191 units.

Municipal Revenue Bonds
Municipal revenue bonds have also been issued by RDAs. In the past, the City of Long Beach has issued over $50 million in revenue bonds to support affordable housing projects resulting in the development of an estimated 330 affordable housing units. Prior to the dissolution of RDAs, 20 percent of local tax revenues generated by the RDA were dedicated to affordable housing projects and were used as security to issue revenue bonds. However, in 2012 the State of California dissolved RDAs. As a result, local tax revenues previously available to support affordable housing initiatives were seized from municipalities and are no longer available.

Conclusion/Next Steps
With the loss of RDA tax revenues and the shortage of other financial support for affordable housing projects, local funding through a voter-approved general obligation bond or a voter-approved special tax is the most viable method of providing funds to capitalize the Housing Trust Fund and fund affordable housing development. The size of a general obligation bond issue would depend on the type of affordable housing projects that are developed.

There are a variety of factors to consider when estimating the funding need of affordable housing projects such as available outside funding, income level targets, rental vs. ownership, and estimated development costs. Staff has conducted a preliminary analysis to determine the estimated funding need for 1,000 affordable housing units. Based on the average subsidy that has been provided to participants over the past ten years, the estimated gap financing would be approximately $126 million.

The table below summarizes the estimated annual debt service payments and annual property tax increases for a 30-year general obligation bond issue that would produce $126 million in net proceeds.

30-Year General Obligation Bond Issue (Estimate)	
Size of Bond Issuance	$126,985,000.00
Net Proceeds (funding need for 1,000 units)	$126,000,000.00
Annual Debt Service Payments	$7,100,000.00
Annual property tax increase ($400,000 home)	$52.00
Annual property tax increase ($500,000 home)	$65.00

Should the City Council wish to proceed with a voter-approved general obligation bond or special tax, staff will complete a thorough analysis to ensure adequate funding for the desired affordable housing program.

If you have questions regarding this matter, please contact Patrick Ure, Housing Development Officer, at (562) 570-6026 or Patrick.Ure@longbeach.gov.

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