

HOUSING BOND REPORT

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California Voters Consider \$2.1 Billion Housing Bond Measure in November

By Alex Ruiz, Staff Writer, Novogradac & Company LLP

Going before California voters in November, Proposition 46 would authorize \$2.1 billion in bonds to be used for a wide variety of housing, including emergency shelters for battered women, affordable housing for seniors, low-income families, and homeless shelters with social services. The proposition has many supporters, including the California Apartment Association, California Building Industry Association, Fannie Mae Bay Area Partnership, League of California Cities, California Redevelopment Association, California State Association of Counties, and more than 45 housing organizations and not-for-profit housing developers such as Mercy Housing of California, National Housing Development Corporation and Non-Profit Housing Association of Northern California.

The measure was authorized by Senate Bill 1227, which was introduced by Senate President pro tem John Burton (D-San Francisco), passed by the California Legislature and signed by Gov. Gray Davis in April. If approved by voters, the initiative will finance \$2.1 billion in affordable housing construction through a state bond.

The amount of funds that the state has provided to these types of housing programs has varied considerably over time, according to an analysis by the state's office of Attorney General. According to the analysis, voters approved a total of \$600 million of general obligation bonds to fund state housing programs (these funds have been spent) in 1988 and 1990. Since that time, the analysis found, the state typically has spent less than \$20 million annually in general fund revenues on state housing programs. On a one-time basis, however, the state recently provided more than \$350 million in general fund revenues for these purposes.

The measure's \$2.1 billion would be allocated to 21 housing programs. The major allocations are:

- \$910 million for multifamily housing such as rental housing for low-income seniors, rental housing for low-income disabled persons, rental housing for families with children, student housing and supportive services (job training, health services, child care);
- \$495 million for homeownership programs including sweat equity housing, down payment assistance for low- and moderate-income families and grants to making housing accessible to persons with disabilities;
- \$390 million for emergency shelters and permanent housing with support services for homeless seniors, battered women, mentally ill people and veterans;
- \$200 million for farmworker housing (both rental and ownership)
- \$100 million for incentives to local governments to approve housing developments; and
- \$5 million for the Housing Rehabilitation Loan Fund for local code enforcement to revitalize neighborhoods.

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California Voters

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There is some doubt that Proposition 46 will win voters' approval next month despite its strong backing. In a state where housing is notoriously unaffordable, supporters of the proposition claim that one-third of all renters spend more than 50 percent of their income for housing and, according to the State Department of Housing, more than 360,000 people are homeless. Supporters say Proposition 46 is a \$2.1 billion general obligation bond that will be paid through existing funds in the state general fund and will not require a new tax. But while the need for more affordable housing may be evident to voters, the state's latest budget crisis and recent tax increases pose a threat to the initiatives chances of passage, says Steve Kinney, a partner with Public Opinion Strategies, a national political and public affairs research firm.

Kinney says he expects November's election will be driven by the gubernatorial race and will see a record-low voter turnout that will consist of 'naysayers' who are voting not because they favor Bill Simon or Gray Davis, but because they dislike his opponent. If that is the case, Kinney says, most initiatives will be voted down. "Especially on initiatives that have money attached to them, they will vote 'no,'" he says.

Voter rejection of Proposition 46 will most likely be a function of fiscal concern, which Kinney expects will influence voters, who will refuse spending initiatives for any use, even education or water. In that case, money - and not the acute need for affordable housing - will be the issue, he says.

The cost of these bonds will depend on their interest rates and the time period over which they are repaid. Generally, the interest on bonds issued by the state is exempt from both state and federal income taxes - lowering the payment amounts for the state. Historically, the type of bonds proposed by this measure has not received the federal tax exemption - resulting in a higher interest rate. According to the attorney general's analysis, if the bonds were sold at an average interest rate of 6.25 percent (the current rate for this type of bond) and repaid over 30 years, the cost would be about \$4.7 billion to pay off both the principal (\$2.1 billion) and interest (\$2.6 billion). The average payment would be about \$157 million per year.

However, supporters of the bond issue assert that Proposition 46 will be an economic boon for the California. According to Yes on 46, " Proposition 46 jump-starts a sagging economy with a new infusion of dollars earmarked for the construction of affordable housing. And those dollars will go a lot farther than the \$2.1 billion the bond raises. Proposition 46 monies can make California eligible for matching federal grants and will encourage private investment. In fact, economists estimate at least \$13 billion in private and federal funds will be generated by Proposition 46."

Yes on 46 expects the funds to create approximately 276,002 full time jobs and \$9.38 billion in wages in addition to the 22,000 permanently affordable housing units it would fund. ❖

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