



HOMELESSNESS AND AFFORDABLE HOUSING BOND

August 2020

SDCTA Position:

SUPPORT

Rationale for Decision:

The inability to provide reasonably priced housing in San Diego is both a market failure and a failure of government policy. The affordable housing bond will provide incentives for private development of housing units for low income households including seniors, veterans and the unsheltered. The passage of the bond will also allow for much needed state and federal matching funds to develop more units. Oversight is included in the language of the bond and SDCTA will ensure a taxpayer representative is included in that oversight to ensure taxpayer protections.

Title: Homelessness and Affordable Housing Bond

Jurisdiction: City of San Diego

Type: General Obligation Bond

Vote: Two-thirds voter approval

Status: On November 3, 2020 Municipal Special Election Ballot

Issue: General obligation bond

Description: Authorizes the City of San Diego to authorize up to \$900 million in general obligation bonds for affordable and supportive housing programs for low income residents, veterans, seniors, and homeless people.

Fiscal Impact: Up to \$900 million in general obligation bonds. Increases property taxes at a rate between \$3.21 to \$20.85 per \$100,000 assessed valuation. Total debt service is estimated at \$2.1 billion.

Executive Summary

The Homelessness and Affordable Housing Bond, a concept proposed by the San Diego Housing Federation but written by the City Attorney of the City of San Diego by direction of the City Council, is authority to issue \$900 million in general obligation bonds to be dedicated towards building subsidized housing in San Diego. The bond proceeds would provide funding to build an estimated 7,500 subsidized housing rental units for low income households, seniors, veterans and homeless people.



Proponents advocate that local subsidized housing revenue will enable development projects to compete for federal and state funding. Additionally, local revenue would provide developers easier access to gap financing, shortening the development finance timeline. Bond revenue would supplement funding from the Affordable Housing Fund.

Opponents cite lack of clarity regarding the specifics of the tax increase, and advocate for other mechanisms to raise revenue for subsidized housing.

SDCTA has stated concern regarding the proposal ballot language, performance indicators for the bond measure and tax efficiency. SDCTA uses a Tax and Fee Criteria against which all tax and fee proposals are reviewed. SDCTA briefed the San Diego Housing Federation and members of the City of San Diego council and staff on our tax and fee evaluation criteria in January. SDCTA received an endorsement application from the Homes for San Diegans campaign staff July 28, 2020.

Background

The last time the City of San Diego was authorized for a general obligation bond was in 1991 and was paid off in 2012.

The bond measure was previously projected to be on the 2018 November ballot but was delayed due to overlap with Measure C, the hotel tax increase to address homelessness.ⁱ

In 2019, the City of San Diego created a Community Action Plan on Homelessness, which outlined the need for the creation of 5,400 units of supportive housing, low-income housing, rapid re-housing and diversion resources.ⁱⁱ

On January 14, 2020, City Council passed a Resolution of Necessity to make “legal and factual findings that the public interest demands the acquisition, construction, and improvements of affordable housing for vulnerable populations in the city.”ⁱⁱⁱThe resolution determined cost burden is the most common housing problem experienced by renters, and the lack of affordable housing has contributed to the high number of individuals experiencing homelessness in San Diego.

On March 11, 2020, the Rules Committee directed the City Attorney’s Office to conduct necessary analysis and draft the bond measure language to be considered by the full City Council.

On July 14, 2020, the City Council voted 6-3 to submit the measure to voters for the November 2020 Municipal Special Election ballot.

San Diego Affordable Housing Funds

A Turner Center for Housing Innovation report found the cost of building a subsidized rental unit under the Low-Income Housing Tax Credit in California increased from \$425,000 per unit in



2016 to more than \$480,000 in 2019. These estimates include hard construction costs in addition to other costs such as permit processes and local developer fees. In San Diego, average developer fees for subsidized rental housing were assessed at approximately \$18,000 per unit.^{iv}

San Diego's current designated subsidized housing funding comes from two primary sources: Inclusionary/In-Lieu fees and commercial linkage fees.

The inclusionary zoning ordinance requiring that all new housing development with 10 or more units or condominium "conversions" with more than 2 units set aside 10% of units as subsidized housing units at 60% AMI, or pay a fee "in lieu" of subsidized housing at a rate of \$15.18 per square foot.^v

Commercial linkage fees, or the Housing Impact Fee, is a fee charged to all commercial development to generate funding for subsidized housing.^{vi} Linkage fees are collected by the City's Development Services Department and placed into the city Affordable Housing Fund, which is administered by the San Diego Housing Commission.^{vii}

San Diego receives other sources for subsidized housing funding from federal, state and local sources. Additionally, San Diego has other financing tools available such as multi-family revenue bonds, or private activity bonds, issued through the San Diego Housing Commission.

However, inclusionary fees and linkage fees, which are deposited into the Affordable Housing Fund are the only dedicated funds for subsidized rental housing in San Diego.
[Figure 2: San Diego Housing Commission funding received FY 2019]

Low Income Housing Tax Credit

Subsidized rental housing development in San Diego is largely funded by the Low-Income Housing Tax Credit (LIHTC). The tax credit comes in two forms: a nine-percent tax credit and a four-percent tax credit. The percentages refer to "the approximate percentage that is multiplied against a project's requested 'qualified basis' to determine the amount of annual federal credits" awarded.^{viii}

Investors provide the capital and buy part of the fund for a projected rate of return on their investment.^{ix} The investments in equity allow for properties to be constructed and renovated at a lower cost, rather than use more costly financing such as bank loans. Lower financing allows developers to set lower rents to maintain a given property^x

The tax credit is provided to states by the IRS based on population and administered by state credit allocation agencies.^{xi} Each state housing credit agency is responsible for creating a quality action plan (QAP), which outlines criteria used to allocate award amounts among applicants. Since applications are extremely competitive, a state's QAP plays a large role in prioritizing certain types of development. In California, the California Tax Allocation Committee (CTAC) distributes 9 percent tax credits through a competitive process and the 4% tax credits to all projects that meet CTAC criteria. The 4% tax credit is limited by the bond cap available to



California and based on a project's use of tax-exempt bond authority from the California Debt Limit Allocation Committee.^{xii}

The CTAC awards state low income housing tax credits to complement the federal program. State tax credits are awarded through a competitive process for both 9% and 4% tax credit projects.

Projects receiving the LIHTC are subject to affordability and income eligibility requirements.^{xiii} Income eligibility requirements following passage of the Consolidated Appropriations Act of 2018 "allow households making up to 80% AMI in LIHTC units as long as the average of all residents is 60% AMI or below".^{xiv}

Developers receiving the LIHTC are required by federal law to maintain the affordability of the property for a minimum of 30 years. In California, recipients of the 9% tax credit usually are required to maintain affordability for 55 years. Recipients of 4% tax credits are additionally eligible for "significant boosts to their basis limits" if they agree to "55-year extended use restrictions."^{xv}

Securing and using LIHTC on a subsidized housing project is extremely competitive and requires a complex web of actors at the federal, state and local level, in addition to private investors and syndicators. Projects are financed through multiple funding sources, each with different requirements and reporting mandates. [Figure 1: Actors in a LIHTC deal]

The equity from the 9% tax credit can cover as much as 75-80% of all project costs. The remaining costs are financed through mortgage financing, called hard debt, or other government sources, such as local subsidized housing funds, called soft debt.^{xvi} Proponents referring to the need for gap financing are referring to the soft debt needed to complete a subsidized housing project.

Recent changes to CTAC regulations prohibit the allocation of state tax credits to projects that had received the 4% tax credit in a previous year. This change was made to prevent projects from continually applying for resources after securing financing. These amendments were adopted by the CTCAC on April 3, 2020 and April 14, 2020.^{xvii}

Intent of the Proposal

The measure is intended to address the 2019 Community Action Plan on Homelessness which established the need for 5,416 housing opportunities over the next 10 years, including 2,802 units of permanent supportive housing with a total estimated cost of \$1.94 billion.^{xviii} The San Diego Housing Federation has estimated the bond revenue will create approximately 2,800 permanent supportive units and 4,700 subsidized rental units.^{xix}

Proponents of the bond measure claim that local sources for subsidized housing development are insufficient to efficiently secure gap financing for subsidized housing. Without sufficient local resources to assist in gap financing for projects, subsidized housing developments become more



costly to produce. Additionally, proponents cite the need for local matching funds to compete for state and federal funding.

Important federal funding sources for subsidized housing development include the HOME Investments Partnership Program, the Community Development Block Grant, State Housing Trust Funds and more. These programs are extremely competitive and typically require match funding from participating jurisdictions. For example, the HOME Investments Partnership program requires jurisdictions match every dollar received with 25 cents of nonfederal funding.^{xx}

California additionally has several programs dedicated towards building subsidized housing, each with specific program objectives and developer requirements. California passed Proposition 1 and 2 in 2018, which authorized \$6 billion in bonds for subsidized housing programs, homeless prevention programs and veterans home loans.^{xxi}

The revenue from these bond measures provided funding for subsidized housing programs such as the Infill Infrastructure Grant Program, Affordable Housing and Sustainable Communities Program and the Transit Oriented Development Housing Program. Competitive applications are often awarded on a point system, with portions of the application scoring a jurisdiction's financial readiness and the availability of local entitlements.^{xxii}

San Diego has traditionally underperformed in receiving state funding for subsidized housing. Research by Circulate San Diego demonstrated that San Diego did not receive state funding from the Affordable Housing and Sustainable Communities Program proportionate to its share of the total California population.^{xxiii} In 2018, San Diego received 5% of funding available while representing 8% of California's population, a gap of \$14 million.

Several other California cities have passed bond measures to become more competitive for state and federal funding. Los Angeles passed Proposition HHH in 2016, a \$1.2 billion bond measure for subsidized housing production.^{xxiv} San Francisco passed Proposition A in 2015, a \$310 million bond measure for construction and preservation of subsidized housing.^{xxv}

Application Process

The SDCTA requires any entity planning to place a tax proposal on the ballot to submit necessary information to be received by our office no less than 180 days prior to the election date. Any information provided submitted fewer than 120 days before an election is not eligible to receive SDCTA endorsement bearing an exception from our Executive Committee. The San Diego Housing Federation received the SDCTA Tax Evaluation Criteria in January and was required to submit evaluation materials with a cover letter signed by the head of the entity, with one individual listed as the primary contact with a phone number and email address. SDCTA received an application for endorsement from the Homes for San Diegans campaign, representing the San Diego Housing Federation proposal, on July 28, 2020.

Review of SDCTA Tax Evaluation and Support Criteria



A. Tax Proposal Description

Proposed by the San Diego Housing Federation, the Affordable Housing and Homelessness bond measure will authorize the sale of up to \$900 million in general obligation bonds to fund the acquisition or improvement of real property to provide Affordable Housing to reduce homelessness. The bond aims to build 7,500 new subsidized housing units, provide match funding to secure federal and state subsidized housing funding, and create construction jobs for the local economy.^{xxvi}

Bonds will be repaid by a levy on all real property in the City of San Diego at an estimated rate between \$3.14 and \$20.84 per \$100,000 of assessed valuation.^{xxvii} The City intends to sell the bonds in multiple series over 7 years.^{xxviii} The bond funds would be administered by the San Diego Housing Commission and subject to independent citizen oversight and annual audits.

Bond proceeds will be used to assist “vulnerable populations,” which includes:

- Extremely low-income (0-30% Area Median Income);
- Very low-income (30-50% AMI); or
- Low income (50-80% AMI), individuals or families, veterans, youth, seniors, the homeless or chronically homeless, those at serious risk of becoming homeless, and individuals suffering from mental health or substance abuse illnesses.

Additionally, the measure would provide a tax credit for developers subject to the Inclusionary Affordable Housing Regulations or Housing Impact Fees on Commercial Development. Qualified developers will be eligible for a tax credit towards linkage or inclusionary housing fees. If a developer had previously paid a linkage fee in lieu of designating subsidized units, they would be entitled to a reimbursement “in an amount equal to the amount of Affordable Housing Tax they pay under the provisions of this Bond Measure”^{xxix}

The measure states bond proceeds may be used to:^{xxx}

- 1) Fund the acquisition or improvement of real property to provide Affordable Housing to reduce homelessness in the City
- 2) Facilities for which assistance and services, such as mental health treatment, healthcare, drug and alcohol treatment, education, and job training may be provided by the City, other public entities, non-profit entities, and/or private entities
- 3) Infrastructure and landscaping, including utilities, sidewalks, and streets that are directly related to and necessary for the acquisition, construction, or improvement of the Affordable Housing
- 4) Pay the legal or other fees incidental to or connected with the authorization, issuance, and sale of the bonds
- 5) Pay the costs of printing the bonds and other costs and expenses incidental to or connected with the authorization, issuance, and sale of the bonds (together, Costs of Issuance).

Funds will be administered by the San Diego Housing Commission, reporting to the City Council and the City of San Diego Housing Authority. Subsidized housing funded by the bond measure will **not be public housing**. Subsidized housing projects will be financed through



leveraging public private partnerships and will be privately owned and managed. The use of public funds requires housing to be affordable for 55 years, with the Housing Commission ensuring compliance.

The annual report will be prepared by the City's Chief Operating Officer, the City Department of Finance and the Housing Commission to describe the amount of bond proceeds collected and expended, and the status of each project funded with bond proceeds.

Ballot Title

Measure ____ : General Obligation Bonds for Affordable Housing

Ballot question

"To provide permanent and supportive housing for low- and moderate-income individuals and families, including supportive mental health and substance abuse services, for populations including veterans, seniors, the disabled, youth and the homeless, shall the City of San Diego issue up to \$900 million in general obligation bonds financed by property tax assessments estimated between approximately \$3 and \$21 per each \$100,000 of assessed valuation for fiscal years 2022 through 2068?"

The ballot question was amended to the above from the version in the ordinance. A motion was made and passed to amend the question, and a full reading of the ordinance was conducted at the City Council meeting to finalize that change.

B. Revenue Source and Funding

Per SDCTA tax and fee evaluation criteria, all of the projects that the tax proposes to fund shall be provided to SDCTA. The bond measure does not include a project list because subsidized housing projects rely on private developers. Once funding for subsidized housing is secured, developers apply for bond funding, which serve as the linchpin for attracting federal, state and private housing funding. Bonds are issued by the San Diego Housing Commission through a competitive bidding process.

If the bond measure is approved, the City will issue and sell the taxable or tax-exempt bonds in multiple series over 7 years. Principal and interest on the bonds will be payable from the proceeds of taxes levied upon taxable property located within the City.

- **Minimum tax rate:** The best current estimate of the tax that would be required to be levied to fund the bond measure during the first fiscal year of the sale of the first series of bonds is \$0.00314 per \$100, \$3.14 per \$100,000 of assessed valuation in fiscal year 2022.
- **Maximum tax rate:** The best current estimate of the highest tax rate that would be required to be levied to fund the bond measure is \$0.02085 per \$100, \$20.85 per \$100,000 of assessed valuation in fiscal years 2028 through 2062.
- **Maximum interest rate:** The rate of interest to be paid on the bonds shall be market rates at the time of issuance. The maximum rate of interest allowed by ordinance is capped at



8%. Interest shall be payable semiannually except that interest for the first year after the date of the bonds may be made payable at the end of said year.

The amount of the anticipated tax increase was provided at a range of \$3.14 to \$20.85 per \$100,000 of assessed valuation over 7 years and a total debt service of \$2.1 billion.

C. Cost Estimation and Feasibility

Estimates for the first fiscal year after the sale of the first series of bonds to be \$3.14 per \$100,000 of assessed valuation. During the first fiscal year after the sale of the last series of bonds, the estimate is \$20.85 per \$100,000 of assessed value. The highest tax rate required to fund the bond measure is estimated at \$20.85 per \$100,000 of assessed valuation.^{xxxii} The interest rate will be in accordance with market rates at the time of issuance, with the maximum interest rate capped at 8%. The estimated final fiscal year in which the tax will be collected is 2068. The estimate of the total debt service is \$2.1 billion.^{xxxiii} As of the time of writing, SDCTA is trying to understand what the property value growth assumptions made in these projections.

According to the City of San Diego's Fiscal Year 2020-2024 Five Year Financial Outlook, the assessed valuation of properties not improved or sold are projected to increase by 2.0 percent for FY2020. This projection is based on the latest available California Consumer Price Index (CCPI) from August 2018.^{xxxiv}

[Figure 4: Example Issuance Schedule]

Cost estimation of housing projects were not provided. This is due to several factors that affect the cost of constructing housing including land or property acquisition, hard construction costs, local development fees, insurance and legal fees.

The applicant stated San Diego subsidized housing development is more cost efficient than other metropolitan areas in California. A Turner Center for Housing Innovation report analyzing the cost of housing under the Low-Income Housing Tax Credit program (LIHTC) found that San Diego built LIHTC supported housing at half the cost as San Francisco and was more cost efficient than the Bay Area and Los Angeles.^{xxxv}

Subsidized housing development is heavily regulated to ensure accountability and efficient use of taxpayer dollars. The bond revenue will be used to finance subsidized housing projects in conjunction with several other federal and state funding programs, each with monitoring and accountability requirements. Most subsidized housing is financed using LIHTC's, which require monitoring by the IRS. State LIHTC require monitoring by the California Tax Credit Allocation Committee in the State Treasurer's Office. Other state funding, such as the Multifamily Housing Program, requires monitoring by California's Housing and Community Development Department.



The legality of the measure was affirmed with the City Attorney's Office using State bond law and general obligation bond language precedent to draft the ordinance and approved by City Council.

D. Justification

The bond measure intends to address the needs identified in the 2019 Community Action Plan on Homelessness and the Resolution of Necessity adopted by the Council on January 14, 2020, which identified the need for more than 5,000 new homes for those who are homeless or at risk of becoming homeless.^{xxxvi}

The applicant identified several statistics that demonstrate the need for more subsidized housing in San Diego, including:

- “Addressing the Housing Affordability Crisis”, San Diego Housing Commission, 2017
 - Estimates housing need in San Diego to be 150,000-220,000 by 2028
 - Housing affordability impacts **100 percent of low-income residents** and a large portion of moderate-income households.

- “Preserving Affordable Housing in the City of San Diego”, San Diego Housing Commission
 - Approximately 88 percent of these very low-income (VLI) households (less than 50% AMI) are housing cost burdened.
 - The housing stock affordable to VLI households diminished by 71% between 2000 and 2020 and is expected to fall another 65% between 2020 and 2040.

- “The Gap: A Shortage of Affordable Rental Homes”, National Low-Income Housing Coalition
 - California has 23 homes affordable and available homes for every 100 extremely low-income (ELI, 0-30% AMI) households.
 - Second-worst rate in the nation.

- “Point-in-Time Count”, Regional Task Force on the Homeless
 - City of San Diego homeless population
 - Sheltered: 2,604
 - Unsheltered: 2,283
 - Total: 4,887

- “Community Action Plan on Homelessness”, San Diego Housing Commission
 - City of San Diego total need for 5,400 units of supportive housing, low income housing or rapid re-housing and 767 diversion resources per year
 - Need for 2,802 permanent supportive housing units to end chronic street homelessness

Proponents cite the need for a dedicated local revenue stream to promote efficiency in financing processes for subsidized housing developers. Additionally, proponents identify the need for local



match funding to ensure San Diego receives federal and state subsidized housing funding proportional to its population.

E. Performance Metrics and Targets

The bond measure does not require more specific performance targets beyond the projected 7,500 subsidized housing units, which includes 2,800 permanent supportive housing units and 4,700 housing units for low income populations. The bond measure seeks to assist “vulnerable populations,” which includes: (1) extremely low income, or (2) very-low income, or (3) low-income individuals or families, veterans, youth, seniors, the disabled, the homeless or chronically homeless, those at serious risk of becoming homeless and individuals suffering from mental health or substance abuse illnesses.”^{xxxvii}

Multi-year strategic plans have not been submitted to SDCTA. The lack of specific housing production targets is due to the year-to-year changes in federal and state funding, federal and state housing policies, the economic environment and the cost of construction.

However, the bond measure addresses targets defined in The City of San Diego Community Action Plan on Homelessness. The Community Action Plan outlines goals, strategies, and progress measurement. Under Measuring Progress, Strategic Goal #5: Increase Outflow, progress metrics include^{xxxviii}:

Source: San Diego Community Action Plan on Homelessness

#5 Increase Outflow	
Strategy	Metric
Pipeline of Dedicated PSH and AH units is active	Number of Permanent Supportive Housing (PSH) units in pipeline by quarter
	Number of Affordable Housing (AH) dedicated units in pipeline by quarter
Dedicated PSH and AH coming online	Actual number of PSH units coming online per quarter
	Actual number of AH dedicated units in pipeline per quarter
New RRH interventions	New Rapid Re-housing (RRH) interventions
	New RRH units planned per quarter
	Actual RRH units online per quarter
Increase the number of people with successful exists to permanent housing	Households placed into permanent housing/successful outcomes by project type (SPM 7)



	Landlords engaged in LEAP
	Persons identified and placed through “Street to Home” pilot
	Units identified for master leasing

F. Adoption of SDCTA’s Best Practices on Independent Citizens’ Oversight

The City of San Diego has not formally adopted SDCTA’s Best Practices on Independent Citizens’ Oversight. However, in the SDCTA July Quality of Life Subcommittee meeting, Stephen Russell of the San Diego Housing Federation stated orally the bond oversight committee would adhere to SDCTA ICOC Best Practices.

G. Past Tax Revenue, Credit Rating, and Performance History

A ‘Debt Obligations’ document prepared by the City’s Debt Management office is publicly available as part of the Fiscal Year 2020 budgeting process.

The City of San Diego’s credit rating for general fund bond obligations as of June 2019 was AA for Fitch Ratings, Aa2 for Moody’s Investors Services and AA for Standard and Poor’s.^{xxxix}

H. Analysis of Unfunded Liabilities

A ‘Debt Obligations’ document prepared by the City’s Debt Management office is publicly available as part of the Fiscal Year 2020 budgeting process.

As of June 30, 2019, the City of San Diego’s pension fund unfunded actuarial liability (UAL) was over \$3 billion at \$3,007,100,000.^{xi} On average, the unfunded amount per household is \$159,384.11. Amortized over a 30-year period, this would be approximately \$5,000 per year.

Evaluation Principles

A. The Tax Proposal Aligns with the Tax Base

SDCTA identified homelessness as a taxpayer issue in its Statement on Coordinated Efforts to End Homelessness in San Diego in January 2012. In April 2011, SDCTA hosted a forum on Costs of Homelessness and found that homeless prevention was much more cost effective for taxpayers than inaction.^{xii} The bond measure would serve to address the public need for housing and homelessness prevention in San Diego by creating permanent housing solutions, rather than using public funds on temporary services that do not address the core causes of homelessness.

However, SDCTA released a statement in March 2020 citing concerns regarding the measure’s ability to achieve an “equitable distribution of housing units where every neighborhood takes their fair share.”^{xiii} The measure fails to address how housing resources will be distributed among San Diego communities and ensure the bond revenue will be utilized efficiently.



A general obligation bond (as compared to a sales tax revenue bond, for instance) is an appropriate mechanism to fund this housing infrastructure development.

B. Addresses the Need Directly

The bond measure directly addresses the need outlined in the 2019 Community Action Plan on Homelessness to create over 5,000 subsidized housing units. The measure further addresses inefficiencies in subsidized housing financing in San Diego as identified in the San Diego Housing Commission Report *Preserving Affordable Housing in the City of San Diego*. The report provides capital resource recommendations to increase seed funding dedicated towards the development and preservation of subsidized housing stock in San Diego.^{xliii}

Additionally, the bond measure addresses the rental affordability gap present in San Diego by dedicating resources specifically for the development and preservation of subsidized housing stock. The San Diego Housing Commission identifies 54% of all residents in San Diego are cost-burdened, paying over 30% of their income in housing costs. Since 2000, median rent has increased by 36% while median renter incomes have increased by 4%.^{xliv} Additionally, San Diego's population has increased by 8% since 2010, pressuring the rental housing market and generating a large rent affordability gap.^{xlv} The San Diego Housing Commission estimated an affordable rental unit gap of 45,700 units for severely low income households and 47,100 units for extremely low income households.^{xlvi}

[Figure 3: Aggregate Affordable Rental Housing Need and Availability by Income Band]

C. Does Not Harm Economic Growth

The measure aims to promote economic growth by creating local jobs. The San Diego Housing Federation estimates the bond will help create thousands of prevailing wage construction jobs to strengthen the local economy. However, due to COVID-19, economic growth is expected to slow or decrease, which makes the marginal tax burden to households more significant. The City of San Diego has not performed an analysis of the economic impact on the region.

The applicant has cited the National Association of Home Builders economic impact study which estimates building 1,000 rental homes generates an average of 1,250 jobs and \$55.91 million in taxes and revenue. Based on these estimates, the 7,500 units built from the bond measure will create a projected 9,375 prevailing wage construction jobs and generate approximately \$419 million in taxes and revenue.^{xlvii} The research estimates \$280 million will be generated for federal taxes and \$139 million for state and local revenue.

Research demonstrates that public investment on core infrastructure such as water, utilities, transportation and communication facilities have a greater effect on economic productivity than other types of public capital (Aschauer 1989).^{xlviii} Further research finds that productivity of private capital increases with public capital but with diminishing returns (Fox and Murray 1993). Due to varying methodological approaches, the definitive impact of public capital investments on economic growth is inconclusive.^{xlix} However, a review of over 75 studies finds that there is a general consensus in recent literature that public investment has a positive relationship with economic growth.¹



Research comparing public and private investment over four decades in the United States finds an accelerator effect with increases in private investment (Voss 2002). Further, the results show that increases in public investment crowds out private investment.¹ This research contradicts claims that public investment increases private investment and economic growth. However, similar differences in methodological approaches produced varying results in the literature. This prevents conclusive quantitative estimates of the impact of private investment on overall economic development.

D. Demonstrates Cooperation with Other Entities

The bond measure is intended to be administered through the San Diego Housing Commission, which serves as San Diego's public housing agency and coordinates subsidized housing efforts with regional partners and stakeholders. The measure is based off of housing needs identified in the Community Action Plan on Homelessness, which designates strategic goals to address homelessness in collaboration with key stakeholders including the Housing Authority, San Diego Housing Commission and Regional Task Force on the Homeless.

E. Demonstrates Long Term Fiscal Sustainability

The bond will be sold in multiple series over 7 years, with the first fiscal year of the sale of the first bond to be \$3.14 per \$100,000 of assessed valuation in fiscal year 2022. The estimate of the tax during the first fiscal year of the sale of the last series of bonds is \$20.85 per \$100,000 of assessed valuation in fiscal year 2028. The estimated final fiscal year the tax will be collected is 2068. A sample issuance schedule has been provided to City Council, showing an initial issuance of \$150 million with \$125 million issued annually over the next 6 years. [Figure 4]

F. Analyzes Aggregate Tax Burden

The City of San Diego did not perform an analysis of aggregate tax burden prior to approving the placement of this measure on the ballot.

The San Diego Housing Federation has estimated the burden of taxpayers by its highest estimated valuation of the property tax increase at \$20.85 per \$100,000 assessed property value.

Current taxes used to fund subsidized rental housing in San Diego are levied on residential and commercial developers through Inclusionary/In-Lieu Fees and Commercial Impact fees.

G. Demonstrates Effectiveness and Efficiency and Maximizes Public Assets

The San Diego Housing Federation has outlined a broad target for the bond measure to create 7,500 subsidized housing units low-income individuals or families, veterans, youth, seniors, the disabled, the homeless or chronically homeless, those at serious risk of becoming homeless, and individuals suffering from mental health or substance abuse illnesses. Of the 7,500 units, 2,800 will be permanent supportive housing units and 4,700 units will be for "various lower income populations."ⁱⁱ However, a count of units produced is not an outcome-oriented performance target and lacks information regarding how the bond measure would affect vulnerable populations.

¹ Graham M. Voss. Public and private investment in the United States and Canada, Economic Modelling, Volume 19, Issue 4, 2002, Pages 641-664, ISSN 0264-9993, [https://doi.org/10.1016/S0264-9993\(00\)00074-2](https://doi.org/10.1016/S0264-9993(00)00074-2).



The San Diego Housing Federation has demonstrated that the bond measure can address inefficiency problems within subsidized housing development, the ability to secure financing to reduce costs of subsidized housing construction. Additionally, the bond measure would serve to maximize available state and federal funding by providing matching funds and allow San Diego to receive subsidized housing funding proportional to its population size.

SDCTA opposed increasing linkage fees in 2013 as an inefficient mechanism to increase funding for the construction of subsidized housing and suggested “if affordable housing is truly a priority of the City Council, a stable source of revenue to support affordable housing projects should be identified.”^{lii} Further, SDCTA suggested using “market-based approaches [to] offer opportunities to increase housing affordability by reducing the cost to develop and limiting time delays, additional fees, and costly regulatory requirements that drive up the cost of home construction.”^{liii} The bond measure is an effort to create a stable source of revenue dedicated towards subsidized housing construction by expediting financing processes and reducing the regulatory burden on developers, which are currently required to pay linkage and impact fees. The costs incurred from financing delays, regulatory processes and local fees are passed onto renters.

H. Commits to Independent Citizen’s Oversight

The San Diego Housing Federation has committed orally to an independent citizens’ oversight committee made of “representatives or professionals in the areas of public finance, housing, homeless services, community and economic development, and architecture.”^{liv} The committee will be established by ordinance of the Council, however, so there is no guarantee that SDCTA’s Oversight Practices will be implemented. Additionally, the San Diego Housing Federation has specified an external auditor will be selected by the Rules Committee and confirmed by City Council after a competitive process to ensure fiscal accountability.

Support and Opposition

Proponents

Proponents of the initiative argue the lack of continuous funding makes subsidized housing projects less efficient and more expensive. As San Diego does not currently have local revenue streams dedicated towards subsidized housing other than impact and inclusionary fees, developers must piece together financing from multiple sources, extending the timeline of a project. The difficulty in securing funding can delay the financing process, which makes the development more costly to produce.

Advocates consider the bond proposal a mechanism to distribute the costs of subsidized housing across the public rather than targeting developers. As current local subsidized housing funding comes from impact and inclusionary fees placed on developers, a property tax would shift the tax burden across the general public.

Additionally, proponents argue the scale of San Diego’s local funding is too small to address the housing and homelessness crisis. Advocates emphasize the need for San Diego to provide



matching funds to compete in state and federal funding processes and receive a “fair share” of available funding. Additionally, local funding would help developers create a subsidized housing project pipeline, which would increase the proportion of projects meeting requirements for state funding programs.^{lv} Citing other cities like San Francisco and Los Angeles, which passed bond measures in 2015 and 2016, supporters are pushing for San Diego to follow suit and generate a dedicated revenue stream towards addressing homelessness and housing affordability.

The Homes for San Diegans Campaign stated:

“Property taxes are the broadest-based, most equitable revenue source available. A homeowner of a median valued home, roughly \$600,000, will pay little more than \$1.50 per-month in the first year of the program. Once all bonds are issued, that same homeowner can expect to contribute about \$10 per-month.”

Opponents

When initially proposed in 2018, the bond faced opposition from labor and business groups prioritizing a measure to expand the Convention Center.^{lvi} There is no formal opposition to the current measure.

Critics of the bond measure have cited lack of clarity regarding the specifics of the property tax increase and were concerned it would increase already high property taxes.^{lvii} The measure does not provide specific information regarding bond revenue accountability and efficiency beyond establishing an oversight committee and committing to an annual external audit. Additionally, the establishment of the bond oversight committee through Council ordinance raises some concerns regarding the independence of the committee.

Information Needed for Evaluation	Info Provided?	Comments
Tax proposal description	Yes	Description included.
Revenue source and funding	Yes	Estimates provided in the measure. No project lists provided.
Cost estimation and feasibility	No	
Justification	Yes	Measure addresses need for over 5,000 housing units outlined by the City Resolution of Necessity adopted January 2019 and the Community Action Plan on Homelessness.
Performance metrics and targets	No	The measure uses unit count as the primary performance metric.



		No other metrics are provided in the measure, however, performance metrics are outlined in the Community Action Plan on Homelessness.
Adoption of SDCTA's Best Practices on Independent Citizens' Oversight	No	Not adopted.
Past Tax Revenue, Credit Rating, and Performance History	Yes	The City of San Diego's debt obligations and credit ratings are publicly available for FY 2020.
Analysis of Unfunded Liabilities	No	The City of San Diego's debt obligations and credit ratings are publicly available for FY 2020. Unfunded pension liabilities were not provided.

Evaluation Criteria	Info Provided?	Criteria Met?	Comments
The Tax Proposal Aligns with the Tax Base	Yes	Yes	A general obligation bond is an appropriate mechanism to finance this public good.
Addresses the Issue/ Need Directly	Yes	Yes	The measure addresses needs specified in the 2019 Community Action Plan on Homelessness.
Does Not Harm Economic Growth	No	No	Some estimates provided regarding potential for job creation, no further economic analysis provided.
Demonstrates Cooperation with Other Entities	Yes	No	The measure does not require intergovernmental efficiencies to be gained.
Demonstrates Long-Term Fiscal Sustainability	Yes	No	Without understanding aggregate tax burden, the long-term viability is unclear.



Analyzes Aggregate Tax Burden	No	No	Information not provided.
Demonstrates Effectiveness and Efficiency and Maximizes Public Assets	Yes	No	There are no specific performance targets in the measure.
Commits to Independent Citizens' Oversight	No	No	

Appendix

Figure 1: Actors involved in a LIHTC deal

Source: Urban Institute “The Low-Income Housing Tax Credit: How It Works and Who It Serves.”

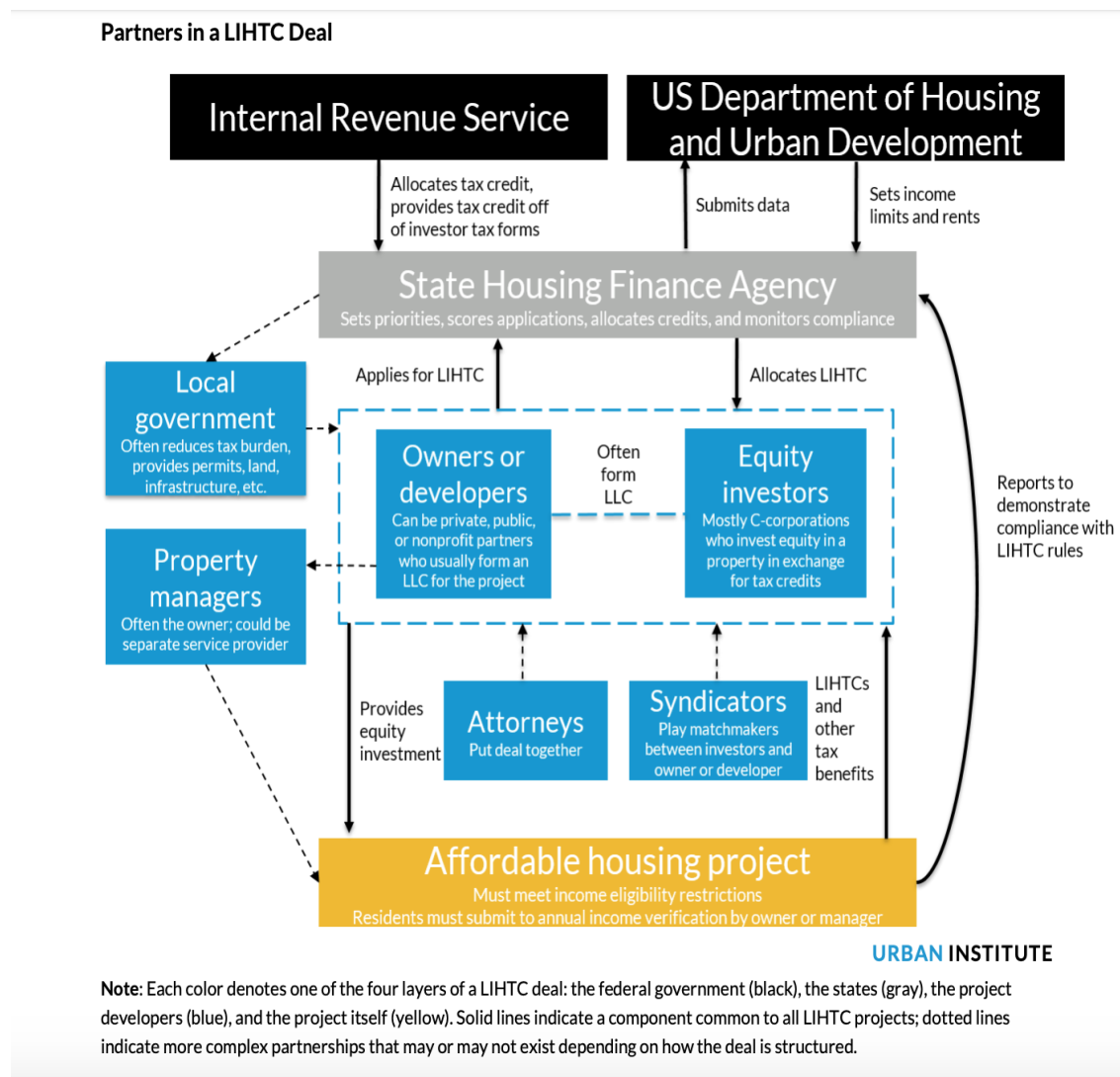




Figure 2: San Diego Housing Commission 2019 Funding Sources
 Source: San Diego Housing Commission Annual Financial Report

Note 5 - Accounts Receivable - Funding Sources (Dollars in Thousands)

At June 30, 2019, amounts due from funding sources consist of the following:

Source / Program	Amount
Business	
City of San Diego	\$ 9,372
Total business	<u>9,372</u>
Federal	
Moving to Work (MTW)	2,822
Continuum of Care	817
Capital Fund	316
Emergency Solutions Grant	299
HOME Investment Partnerships (HOME)	161
Federal - Various	55
Total federal	<u>4,470</u>
State	
State - Various	34
Total state	<u>34</u>
Local	
Local - Various	91
Total local	<u>91</u>
Total	<u>\$ 13,967</u>

All amounts are expected to be collected in the next fiscal year.

Figure 3: Aggregate Affordable Rental Housing Need and Availability by Income Band
Source: San Diego Housing Commission. "Preserving Affordable Housing in the City of San Diego."

Figure 1: Aggregate Affordable Rental Housing Need and Availability by Income Band³

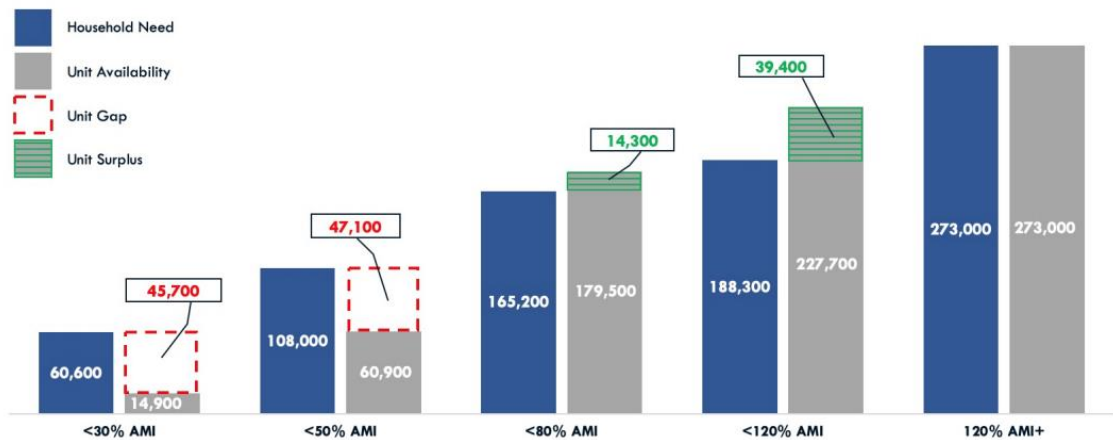
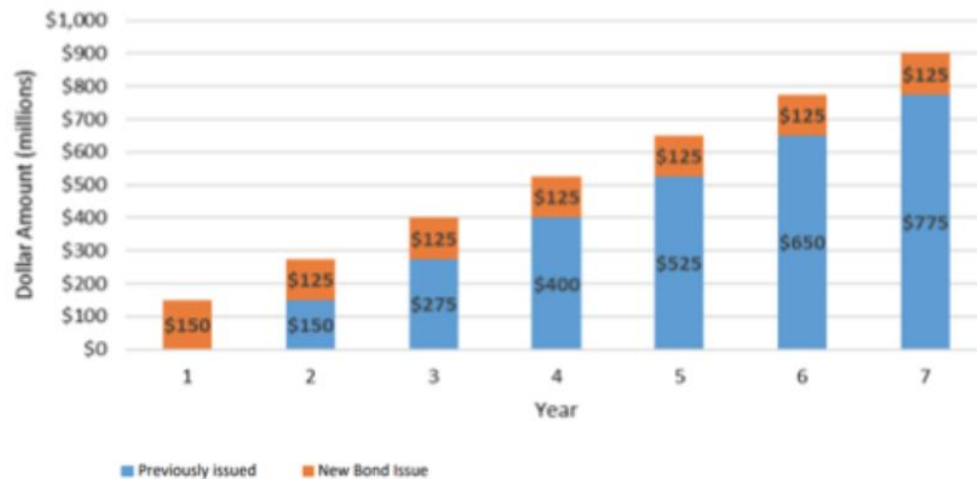


Figure 4: Example Issuance Schedule

Source: San Diego Housing Federation for Homelessness and Affordable Housing Bond City Council Meeting

Example Issuance Schedule



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