SGVCOG

SGVRHT San Gabriel Valley Regional Housing Trust

Harris & Associates

AFFORDABLE HOUSING BOND ISSUANCE - ECONOMIC ANALYSIS AND DEVELOPMENT PROJECTION

FINAL DRAFT

December 31, 2023

An economic analysis of the bonding potential and development projection of a potential affordable housing bond issuance program for the San Gabriel Valley Council of Governments.

EXECUTIVE SUMMARY

The San Gabriel Valley Council of Governments ("SGVCOG") and San Gabriel Valley Regional Housing Trust ("SGVRHT") engaged a team led by Harris & Associates ("Harris") with assistance from KNN Public Finance, LLC (referred to collectively as the "Harris Team") to conduct an economic analysis of the bonding potential of the SGVRHT, including dollar amount and staffing capacity, to determine the ability of the SGVRHT to issue bonds for the development of affordable and homeless housing. The analysis includes a development projection demonstrating the potential number of projects and units that could be supported by an SGVRHT bond issuance and discusses the feasibility of participating in a bond revenue fee-sharing program. Feasibility and projections were made with assumptions based on the SGVCOG organizational structure, goals, and project history.

The bonding potential is dependent on a revenue source to pay the bonds. Research and analysis completed by the Harris Team in drafting this report and the accompanying Affordable Housing Bond Issuance Program Best Practices report shows that becoming a bond issuer would be beneficial for the SGVCOG only if a dedicated local revenue source could be feasibly established. The most feasible dedicated local revenue source the SGVCOG could use to maximize bond proceeds is property taxes, which would be assessed through a local bond measure. This report also details the limitations of using Special Tax Bonds backed by sales tax revenues, an alternative local revenue source.

This report does not recommend that the SGVCOG or SGVRHT issue bonds, but only seeks to estimate the potential impact of such an issuance. Using generally conservative assumptions about tax rates and issuance costs, the Harris Team estimates that the SGVRHT could raise between approximately $262 million and approximately $660 million of bond proceeds net of issuance and staffing costs. These proceeds could support between 32 and 80 new affordable housing developments totaling between approximately 1,900 and approximately 4,800 affordable housing units, with between approximately $65 million and $165 million of the bond proceeds set aside for other housing and homelessness programs such as efforts to address homelessness, to prevent displacement, to protect tenants, and downpayment assistance. Some of the structure of the projections is modeled after Alameda County's Measure A1 program. Notably, these projections assume universal participation among all of the SGVRHT member cities.

THE TYPICAL PROJECT FINANCING MODEL

Like market-rate development, affordable housing development is financed with a combination of debt and equity. Because rents in affordable housing are legally restricted, developers are not able to attract private equity in the same way that a market-rate developer does. Instead, equity for affordable housing development is usually secured via the sale of Low-Income Housing Tax Credits ("LIHTC"), which developments are awarded through a competitive process that requires compliance with affordability standards and encourages certain other priorities, such as access to community amenities. The private debt (usually from a bank) used for affordable housing development is also limited by rent restrictions. As a result, many affordable housing developments require additional sources of funding.

The additional funding is often provided as grants and/or loans from state and/or local agencies. In California, additional state sources include the following:

- Affordable Housing and Sustainable Communities Program,
- Multifamily Housing Program,

- Veterans Housing and Homeless Prevention Program,
- Joe Serna Jr. Farmworker Housing Grant Program,
- Infill Infrastructure Grant Program,
- CalHOME, and
- Transit Oriented Development Program.

Funding for the state programs comes primarily from a combination of voter-approved bond measures, state budget allocations, and federal funds. The availability of local agency funding is highly dependent on local agencies to raise funds. Local sources can include:

- Direct allocations from the State budget.
- In-lieu and linkage fees assessed on new development.
- Local tax revenues designated for affordable housing (either through the agency budget or by voters).
- Contributions of public land.
- Tax increment dedicated for affordable housing (since redevelopment agencies were dissolved in 2012, this source consists entirely of funds or loan repayments originating from before 2012).

Local agencies can issue bonds to provide a greater amount of funding for affordable housing in the near term, which requires repayment over the long term.[1] The bond issuance does not represent a new revenue source itself, but rather a method to accelerate the impact (e.g., new affordable housing developed) of committed revenues. To date, the SGVRHT's funding has come entirely from allocations from the State budget and from two State grant funding programs: the Permanent Local Housing Allocation ("PLHA") program and the Local Housing Trust Fund ("LHTF") program. The SGVRHT has divided its state budget allocation into different program: for a permanent financing pipeline and for a revolving loan fund. Bond proceeds could be similarly separated into different affordable housing programs and uses.

SGVRHT PIPELINE

The SGVRHT has twelve projects in its permanent financing pipeline to support affordable housing development. Table 2 provides a summary of these projects and calculates their per-unit total development cost and per-unit SGVRHT subsidy amount, figures referenced later in this report. Of note, listed total development and subsidy amounts (i.e., funding awarded or committed to the project by the SGVRHT) represent figures accurate as of the date of this report per data available to Harris.

[1] These locally issued bonds should not be confused with Private Activity Bonds that are paired with 4% LIHTC. The latter are typically issued, and their proceeds are awarded, by state housing finance agencies. Proceeds from locally issued bonds would be awarded by the local issuing agency.

Table 2. SGVRHT Pipeline Projects

Project Name	Developer	Total Units	Total Development Costs	Total Subsidy Amount	Per-Unit Development Cost	Per-Unit SGVRHT Subsidy
Base Line Road	Restore Neighborhoods LA, Genesis LA	15	$6,309,476	$750,000	$420,632	$50,000
West Mission Apartments	Jamboree Housing Corporation	57	26,112,073	1,350,000	458,107	23,684
East End Village	Pomona Housing Development, LP / Cesar Chavez Foundation	125	84,962,029	1,000,000	679,696	8,000
Mariposa	American Family Housing	50	35,600,597	1,000,000	712,012	20,000
Baldwin Park Apartments - Vista Del Monte	Cesar Chavez Foundation	51	39,149,591	1,500,000	767,639	29,412
6th Street Grand	Cesar Chavez Foundation	63	43,102,643	1,200,000	684,169	19,048
Larkin Place (Pilgrim Place)	Jamboree Housing Corporation	32	21,747,431	3,000,000	679,607	93,750
Prisma Artist Lofts	National Community Renaissance of California	75	47,702,166	2,000,000	636,029	26,667
Willow Way	LINC Housing Corporation	39	22,258,453	1,560,000	570,730	40,000
Chapel Apartments	Related California	44	35,420,975	1,760,000	805,022	40,000
The Boulevard	Cesar Chavez Foundation	81	68,172,039	2,500,000	841,630	30,864
Plaza Ortiz Family and Veterans	Cesar Chavez Foundation	53	39,439,957	1,687,807	744,150	31,845
Total		**685**	**$469,977,430**	**$19,307,807**		
Weighted Average		**57**			**$686,098**	**$28,187**
Rounded Weighted Average		**60**			**$700,000**	**$30,000**

POTENTIAL REVENUE, PROJECTS, AND UNITS

Research completed by Harris, detailed in the accompanying Affordable Housing Bond Issuance Program Best Practices report, shows that becoming a bond issuer would benefit the SGVCOG/RHT only if a dedicated local revenue source could be feasibly established. Bonds can be structured as General Obligation ("GO") Bonds or Special Tax Bonds, depending on whether the revenues used for debt service are designated broadly or identified specifically. As shown in this report, the most reliable local revenue source is property taxes, which are typically associated with GO Bonds. This section estimates potential property tax revenue, bond proceeds, projects and units that could be supported by those proceeds, and supportable staffing. The section also describes the limitations of Special Tax Bonds in the context of the SGVRHT.

GO Bonds

GO Bonds have two varieties:

- Limited GO Bonds: This variety of GO Bonds is paid with cash flows generated by a dedicated tax, usually a property tax. Issued bonds are guaranteed by an issuing public agency limited in their ability to raise taxes for debt repayment should cash flows fall short. Limited GO Bonds are generally more risky for investors than Unlimited GO Bonds due to limitations on what revenues can be used to pay debt service.
- Unlimited GO Bonds: This variety of GO Bonds can be paid with cash flows generated by a dedicated tax, usually a property tax, and supplemented with other sources. In the case of the SGVCOG, general revenues could include amounts members are willing to contribute and other sources available to the SGVCOG. If the dedicated revenue falls short, the bond sponsor(s) are required to identify additional revenue to pay off the debt obligation. Unlimited GO Bonds are less risky for investors than Limited GO Bonds, which may allow them to be issued at lower interest rates.

The following analysis is focused on potential bond proceeds that may be raised using GO Bonds and makes no distinction between Limited and Unlimited GO Bonds. Calculated and listed figures in this section may vary due to rounding.

The SGVCOG could seek to implement a voter-approved property tax rate (“Property Tax Rate”) to establish a revenue source to service debt on a GO Bond. Per data provided by the Los Angeles County Auditor-Controller, City voter-approved property tax rates active in Fiscal Year 2023-2024 range from 0% to 0.45%, with an average rate of approximately 0.11%. To use a conservative baseline for the bonding potential range for GO Bonds, Harris assumed SGVCOG Property Tax Rates of 0.01% and 0.025%. These are equivalent to an annual levy of $10 and $25 per $100,000 of assessed value, respectively. Amounts raised by these rates will be dependent on the Assessed Values (“AV”) of property within participating SGVCOG member cities (“Member Cities”).

As of the date of this report, there are a total of 24 Member Cities, including affiliate members. Revenue could be pledged from only some of the cities and at different rates in different cities. This report includes all 24 cities at consistent rates for the projection of potential affordable housing financed. Table 3 shows the total annual revenues that could be raised from Member Cities if the SGVCOG were to implement Property Tax Rates of either 0.01% or 0.025%. Fiscal Year 2022-2023 assessed value data for Member Cities was used from data provided by the Los Angeles County Auditor-Controller. Assessed values tend to increase over time, and these estimates serve as a base value for the projections.

Table 3. GO Bond Annual Property Tax Revenue Potential

Member Cities Fiscal Year 2022-23 Assessed Value	0.01% Property Tax Rate Annual Revenue	0.025% Property Tax Rate Annual Revenue
$231,898,182,598	$23,189,818	$57,974,546

Annual revenues shown in Table 3 are used to estimate GO Bond proceeds that could potentially be raised by the SGVCOG using a conservative DSCR of 1.25x. A fixed bond coupon (interest) rate of 5.10% is used and was calculated by taking an average of the Par Weighted Bond Coupon rate of the S&P Municipal Bond General Obligation Index and housing bonds issued in the State in 2023 through November 2023, plus an additional ten basis points (i.e., 0.10%) for conservatism. Issuances examined include taxable bonds issued by the City of Emeryville in April 2023 and taxable and tax-exempt bonds issued by the City and County of San Francisco in March 2023. Solely housing bonds issued in 2023 were examined due to the historic variability of bond coupon rates and with the assumption that bonds issued would face market conditions similar to those as of the date of this report.

Harris notes that taxable and tax-exempt bonds carried different coupon rates, with taxable bonds having higher rates. An average was used for this analysis, though it should be noted that keeping all other factors constant, bonding capacity increases as coupon rates decrease and vice-versa. The coupon rate used in this analysis is an estimate subject to fluctuation based on market conditions. It is assumed that issued bonds would follow an amortization period of 30 years with no interest-only component. Table 4 provides GO Bond proceed amounts that could be raised by the SGVCOG per these assumptions.

Table 4. Estimated GO Bond Proceeds

Description	0.01% Property Tax Rate GO Bond Scenario	0.025% Property Tax Rate GO Bond Scenario
Annual Revenue	$23,189,818	$57,974,546
Minimum DSCR	1.25x	1.25x
Revenue Available for Debt Service Payment	18,551,855	46,379,637
Annual Interest Rate	5.10%	5.10%
Amortization Period (Years)	30	30
Total GO Bond Proceeds	**$281,965,175**	**$704,912,938**

To determine how GO Bonds could be used by the SGVCOG to achieve its housing goals, Harris referenced Alameda County's 2016 Measure A1 Affordable Housing Bond Program ("Measure A1") as a model. Alameda County includes 14 cities and constitutes most of the East Bay region in the San Francisco Bay Area. In 2016, Alameda County voters approved Measure A1 with more than 73% of votes in favor. The measure authorized the county to issue $580 million in GO Bonds secured by a property tax assessment estimated at $12 to $14 per $100,000 of assessed value. Of note, the actual assessment was $10.30 per $100,000 in Fiscal Year 2022-23 and has been less in prior years. The county's bonds were issued as taxable to avoid the many restrictions associated with tax-exempt borrowing, primarily the need to secure private activity bond allocation on a project-by-project basis.

Per the Measure A1 Annual Report for the Year Ending June 2018 ("Measure A1 2017-2018 Annual Report"), the Board of Supervisors ("Measure A1 Board of Supervisors") established by the Alameda County Housing & Community Development Department ("Alameda HCD") to administer and monitor Measure A1 authorized up to 10% of Measure A1 bond proceeds to fund bond issuance and administrative costs, including staffing costs. Bond issuance costs are generally quoted as a percentage of the total issuance amount, can vary based on factors including issuance amount and the credit rating of the issuing entity, and are used to pay underwriter, legal, financial advisor, and other fees.

A research paper authored by the California Debt & Investment Advisory Commission ("CDIAC") found that between 2009 and 2011, bond issuance costs averaged approximately 0.75% for bond issuances over $75 million and 3.0% for bond issuances under $10 million. Harris assumes bond issuance costs equal to 0.75% due to the projected size of GO Bond proceeds that could be issued based on a 0.01% and 0.025% Property Tax Rate. Of note, keeping all other factors constant, issuance costs as a percentage of total bond proceeds generally decrease as amounts issued increase. Harris assumes a portion of GO Bond proceeds would be used on indirect labor costs (including temporary workers and outside consultants) to supplement staffing capacity or outsource certain functions such as those related to compliance reporting/monitoring. It is assumed these costs would not exceed 1.5% of total GO Bond proceeds for amounts raised via a 0.01% Property Tax Rate, and not exceed 1.0% of total GO Bond proceeds for amounts raised via a 0.025% Property Tax Rate. A lower percentage is applied to the large issuance because it would likely benefit from economy of scale in contracting outside staff/consultants.

Finally, Harris assumes that direct staffing costs would not exceed 4.50% of total bond proceeds for each issuance scenario. The same percentage is applied to both issuances to recognize that a larger GO Bond issuance would allow for a greater number of projects to be supported, requiring greater staffing capacity and a longer maximum timeline to deploy all GO Bond proceeds. An analysis of staffing levels that could potentially be funded via GO Bond proceeds is provided later in this section. Table 5 provides a breakdown of GO Bond Proceeds that would be available net of estimated bond issuance, indirect staffing, and direct staffing costs, representing less than 7.0% of total bond proceeds compared to the 10% authorized for Measure A1.

Table 5. Estimated GO Bond Proceeds Net of Identified Costs

Description	0.01% Property Tax Rate GO Bond Scenario	0.025% Property Tax Rate GO Bond Scenario
Total GO Bond Proceeds	$281,965,175	$704,912,938
Issuance Cost as a Percentage	0.75%	0.75%
Issuance Cost	2,114,739	5,286,847
Indirect Staffing Cost as a Percentage	1.50%	1.00%
Indirect Staffing Cost	4,229,478	7,049,129
Direct Staffing Cost as a Percentage	4.50%	4.50%
Direct Staffing Cost	12,688,433	31,721,082
GO Bond Proceeds Net of Issuance and Indirect/Direct Staffing Costs	**$262,932,526**	**$660,855,880**

Of the $580 million in bonds authorized for Measure A1, $50 million is allocated to fund a home purchase downpayment assistance loan program, $45 million for a housing preservation loan program, $35 million for a property acquisition/tenant displacement-prevention program, and $25 million for a for-sale housing development program. A majority of funds, $425 million or 73% of the total, are allocated to fund a rental housing development program. Per Alameda County data available as of November 2023, rental developments funded by Measure A1 used a bond leverage ratio of 7.13, indicating that an average development received Measure A1 funding equal to approximately 14% (i.e., 1 / 7.13) of total development costs, with remaining funds coming from other sources.

For the purposes of this projection, Harris assumes that SGVCOG would achieve a bond leverage ratio of 7.0, similar to Alameda County's Measure A1 program. Further, Harris assumes that SGVCOG would allocate a similar portion of net bond proceeds (75%) to new affordable multifamily housing development and would allocate the other 25% to other programs for a comprehensive approach to addressing housing affordability and homelessness issues. The other 25% of net bond proceeds could be used on various programs, such as efforts to address homelessness, to prevent displacement, to protect tenants, and downpayment assistance.

Harris uses the SGVRHT's 12 pipeline projects listed in Table 2 to create a model of the average affordable housing development that would be funded by a bond program, including to estimate development costs, project size, and SGVCOG funding. The average development cost per unit of the pipeline projects is approximately $700,000. This amount is escalated by 3% for conservatism, arriving at an average development cost per unit of $721,000. The pipeline projects, on average, consisted of approximately 60 units each. SGVRHT funding for the pipeline projects averaged approximately $30,000 per unit. However, Harris uses a bond leverage ratio of 7.0, which translates to an average subsidy of $103,000 per unit.

Affordable Housing Bond Issuance - Economic Analysis and Development Projection

Table 6 estimates the potential number of units and projects that could be supported by GO Bonds issued by the SGVCOG using proceeds raised from a 0.01% and 0.025% Property Tax Rate. Of note, the Average GO Bond Funding per Unit calculated in the following table is notably higher than the average amount per unit the SGVRHT has awarded to projects in its pipeline. The SGVRHT could establish a policy to limit the amount of GO Bond proceeds awarded on a per unit basis below that shown in Table 6, thereby increasing the number of units and projects that could be supported by the GO Bond proceeds. Alternatively, maintaining a higher per-unit subsidy limit will allow developments to be completed with fewer funding sources and possibly at a lower total development cost per unit.

Table 6. Units & Projects Supported by GO Bond Proceeds

Description	0.01% Property Tax Rate GO Bond Scenario	0.025% Property Tax Rate GO Bond Scenario
GO Bond Proceeds Net of Issuance and Indirect/Direct Staffing Costs	$262,932,526	$660,855,880
Percentage of Funds Used for Affordable Housing Development	75%	75%
Funds for Affordable Housing Development	197,199,395	495,641,910
Funds for Other Housing & Homelessness Programs	65,733,132	165,213,970
Average Development Cost per Unit	721,000	721,000
Bond Leverage Ratio	7.0	7.0
Average GO Bond Funding per Unit	103,000	103,000
Total Units Receiving GO Bond Funding	**1,915**	**4,812**
Average Number of Units per Development	60	60
Estimated Number of Projects Financed	**32**	**80**

Per the Measure A1 2017-2018 Annual Report, the Measure A1 Bond Program is expected to operate over the course of approximately 10 years. The estimated GO Bond proceeds projected to be raised from an SGVCOG 0.025% Property Tax Rate are similar to that of Measure A1. Therefore, Harris assumes that an SGVCOG GO Bond program would be implemented over a similar time frame of 10 years for proceeds raised via a 0.025% Property Tax Rate, whereas a GO Bond program funded by a 0.01% Property Tax Rate would operate for a shorter period of up to seven (7) years. Table 7 presents total indirect and direct staffing costs, as shown in Table 5, and allocates costs over the assumed duration of each SGVCOG GO Bond Program.

Table 7. Projected Annual Direct & Indirect Staffing Cost Allocation Maximums – GO Bond Program

Description	0.01% Property Tax Rate GO Bond Scenario	0.025% Property Tax Rate GO Bond Scenario
Duration of GO Bond Program (Years)	7	10
Total Indirect Staffing Cost Allocation	$4,229,478	$7,049,129
Annual Indirect Staffing Cost Allocation	**604,211**	**704,913**
Total Direct Staffing Cost Allocation	12,688,433	31,721,082
Annual Direct Staffing Cost Allocation	**$1,812,633**	**$3,172,108**

The Measure A1 2017-2018 Annual Report notes the Alameda HCD hired Housing and Community Development Managers and Housing and Community Development Technicians to implement the Measure A1 bonds and supporting programs. For purposes of this analysis, Housing and Community Development Managers are assumed to be nearly equivalent to the position of Senior Project Manager and Project Manager listed on the SGVCOG 2023 Salary Schedule, and Housing and Community Development Technicians are assumed to be nearly equivalent to the positions of Management Analyst and Management Aide listed on the SGVCOG 2023 Salary Schedule. To arrive at estimated annual costs per equivalent position, a competitive salary equal to the 75th percentile of salary ranges provided within the SGVCOG 2023 Salary Schedule is used, and associated benefit costs are assumed to equal 35% of base salary levels. Table 8 provides the estimated annual costs for positions the SGVCOG could use to administer and support a GO Bond program.

Table 8. Projected Annual Cost per Staff Position

Position	Minimum Salary	Maximum Salary	Base Salary (75th Percentile)	Benefit Cost (35% of Base Salary)	Annual Cost
Senior Project Manager	$155,801	$214,230	$199,623	$69,868	$269,491
Project Manager	116,318	156,945	146,788	51,376	198,164
Management Analyst	70,662	92,666	87,165	30,508	117,673
Management Aide	60,627	80,187	75,297	26,354	101,651

Based on the direct staffing cost allocation maximums identified in Table 5 under a GO Bond program funded by a 0.01% and 0.025% Property Tax Rate, the SGVCOG could consider various staffing structures to support a GO Bond Program while remaining under calculated cost allocation maximums. Table 9 provides a summary of a potential staffing structure under each Property Tax Rate scenario (0.01% and 0.025%) that allows the SGVCOG to remain below previously identified direct staffing cost allocation maximums. Annual indirect staffing cost allocation maximums are provided in Table 9 (on the next page) to demonstrate what funds could be used to supplement annual staffing needs. Staff would be used for all of the funded programs, not just the new development program. Of note, data in the following table represent positions in addition to current SGVCOG staff and are meant to demonstrate one example of how GO Bond Proceeds could be used to fund an expansion of current staffing capacity to administer and support a GO Bond program.

Special Tax Bonds

With Special Tax Bonds, revenue used to pay bond debt service derives from a tax (usually a sales tax) on a service or good, such as gasoline, hotel stays, liquor, tobacco, or marijuana. Special Tax Bond revenues typically fund projects relating to the good or service being taxed. For example, an additional tax levied on the sale of cigarettes could provide revenue for a bond issuance to fund the construction of a hospital wing for cancer treatment. However, Special Tax Bond revenue may also come in the form of a special assessment levied against a specific population to fund a project that will directly benefit the levied population. This form of revenue backing is not practical for affordable multifamily rental housing development; thus, this section focuses on Special Tax Bonds backed by a sales tax.

The SGVCOG could seek to implement a sales tax across its Member Cities to support the issuance of Special Tax Bonds to fund affordable housing development. Cities in Los Angeles County have a base sales tax rate of 7.25% ("Base Rate"). For all Los Angeles County cities, an additional 2.00% is levied for LA Metro to fund transit, and an additional 0.25% is levied under Measure H to fund projects and programs to address homelessness. These sum to 9.50% (“Countywide Rate”) Further, many cities, including Member Cities, have total sales tax rates above the Countywide Rate, in part because of city-approved sales and transaction and use taxes, some of which are dedicated to funding various functions specific to the municipality. A review of city-approved sales tax rates in Member Cities shows rates generally range from 0.25% to 0.75%. Cities in Los

Angeles County are subject to a maximum allowable sales tax rate of 10.25% ("Max Rate"). This rate can be increased, though it requires state legislative action. As of the date of this report, 17 of the 24 Member Cities are at their Max Rate, preventing the SGVCOG from implementing a sales tax to fund Special Tax Bonds on more than seven Member Cities. Additionally, these seven cities have a sales tax rate equivalent to the Base Rate, suggesting a potential political unwillingness within each agency's voting electorate to approve a sales tax rate increase.

Table 9. GO Bond Program Potential Staff Structures

0.01% Property Tax Rate GO Bond Scenario		
Position	**Number of Positions (Full Time)**	**Total Annual Cost**
Senior Project Manager	1	$269,491
Project Manager	3	594,492
Management Analyst	5	588,364
Management Aide	3	304,953
Total	**12**	**$1,757,300**
Annual Direct Staffing Cost Allocation		**$1,812,633**
Differential From Calculated Total Staffing Costs		**$55,334**
Annual Indirect Staffing Cost Allocation		**$604,211**
0.025% Property Tax Rate GO Bond Scenario		
Position	**Number of Positions (Full Time)**	**Total Annual Cost**
Senior Project Manager	2	$538,981
Project Manager	4	792,657
Management Analyst	10	1,176,728
Management Aide	5	508,255
Total	**21**	**$3,016,620**
Annual Direct Staffing Cost Allocation		**$3,172,108**
Differential From Calculated Staffing Costs		**$155,488**
Annual Indirect Staffing Cost Allocation		**$704,913**

A preliminary analysis performed by Harris to estimate the bonding potential of Special Tax Bonds backed by an SGVCOG voter-approved sales tax rate ranging between 0.25% and 0.75% found that if levied across all Member Cities or just those Member Cities with sales tax rates below the Max Rate, issued bonds would exceed amounts projected in the GO Bond section of this report. However, the SGVCOG faces various barriers to successfully issuing Special Tax Bonds backed by a sales tax due to a majority (70%) of Member Cities being unable to increase sales tax rates further without state legislative action, the difficulty associated with initiating and completing needed state legislative action, and a high likelihood of facing political unwillingness within 30% of Member Cities to approve increasing sales taxes.

Of note, because sales tax revenues are directly tied to consumer activity/spending, amounts generated are sensitive to economic conditions and can vary significantly from quarter to quarter. This volatility is important to consider in the context of Special Tax Bonds dependent on sales tax revenues, as bonds issued would likely require a DSCR threshold and/or a coupon rate above an average GO Bond issuance to account for the additional risk underlying the revenue stream.

BOND REVENUE FEE SHARING

As detailed in the accompanying Affordable Housing Bond Issuance Program Best Practices report authored by Harris, former Los Angeles County Development Authority ("LACDA") staff approached SGVCOG staff to propose partnering for a "bond revenue fee sharing" program. Per data available to Harris, the partnership would aim to share administrative responsibilities (including project evaluation) and issuance fee revenues amongst partners. Harris did not find evidence of another issuer offering this kind of partnership.

The LACDA staff member who proposed the idea is no longer with the agency. Thus, it is unclear if LACDA would still offer a fee-sharing program. Furthermore, existing bond issuers have established processes and rely on issuance fees to support their staff. A fee-sharing program could work in theory, but there is little incentive for most existing bond issuers to forfeit a portion of their fee. A fee-sharing program is unlikely to generate significant revenues for SGVRHT - however, revenues may be sufficient to cover the cost of SGVRHT's responsibilities as part of a fee-sharing program.

It is worth noting that because issuance fees are paid as part of the bond issue proceeds, SGVRHT would likely be in about the same financial position by utilizing an existing conduit bond issuer as it would by participating in a fee-sharing program. Similarly, CDLAC allocates bond volume based on project details. Based on the information above, it does not appear there would be any benefit for SGVRHT to receive a CDLAC allocation by participating in a fee-sharing program rather than utilizing an existing conduit bond issuer. Nor does it appear that the SGVCOG's participation in a fee-sharing program would generate significantly more projects or units than would otherwise be created.

OTHER BONDING CONSIDERATIONS

Research for this report identified additional topics of consideration and tools regarding affordable housing bond issuances for the SGVCOG.

Debt Service Coverage

A primary consideration in the issuance of bonds for affordable housing is determining the debt service coverage ratio ("DSCR"), which measures the ability of cash flows to pay debt obligations by dividing the former by the latter. The debt service coverage ratio may need to be higher depending on the reliability of the revenue source. When dealing with more variable revenues, lenders or bond purchasers are expected to seek a higher coverage ratio or other measures to reduce the risk of a missed payment (default). For example, sales taxes are relatively variable. When economic conditions are favorable consumers buy more goods and sales tax revenues increase. But during an economic downturn, sales and sales tax revenues can decrease.

As another example, affordable housing bonds backed by cash flows generated from the projects they finance are subject to operating and broader market risks. Variation in rent collections and operating costs may cause net operating income available for debt service to vary. Funding guidelines, such as the Uniform Multifamily Regulation for tax credits, require operating, capital, and other reserves to reduce the risk of nonpayment on a loan that requires payment.

Debt secured by local property taxes is more stable. California state law limits annual increases in properties' assessed values to a maximum of 2% except in the case of a change in ownership or property improvement. Market values have generally increased more quickly. Therefore, assessed values rarely decrease and the corresponding property tax revenues increase relatively consistently. If pledging property taxes to pay debt service, an initial minimum DSCR requirement of 1.20x to 1.25x would be a conservative estimate.

Interest Rates

As interest rates change, so do the implications for issuers and borrowers of bonds. Interest rate risk represents the inverse relationship between interest rates and bond prices. As interest rates rise, prices of issued bonds tend to fall as investors do not wish to purchase bonds with yields below market average and vice-versa.

Rising interest rates also increase the cost of debt, requiring greater levels of cash flows (regardless of revenue source) to maintain debt obligations. Increased interest rates for public agency borrowing typically coincide with higher interest rates on construction and permanent loans, which increases borrowers' demand for private activity bonds due to the lower interest rates these bonds can offer versus conventional financing. As competition increases for these private activity bonds, state volume cap availability can become scarce, increasing reliance on other revenue streams. Changes to interest rates can ultimately hamper or heighten the number of affordable housing developments and units that can be built through the use of bonds.

Regional Equity

One reason for hesitation that Member Cities may have about participating in a bond program is the concern that tax revenues raised within the City may be spent in other cities. While it is appropriate to view housing affordability and homelessness as regional issues, there are steps the SGVCOG could take to promote a level of regional equity and fairness to Member Cities. Alameda County's Measure A1 program provides a good example of how this can be done.

As described previously, the Measure A1 program allocates approximately 73% ($425 million) of its bond proceeds for new affordable housing development. Of this amount, approximately half ($225 million) is allocated to each jurisdiction based on its relative assessed value and population. This allocation, shown in Table 10, ensures that this portion of the bond proceeds is generally spent within the jurisdiction where it is generated, with an adjustment for populous areas where housing may be more needed.

Table 10. Alameda County Measure A1 Base City Allocations

City	Allocated Funding
City of Alameda	$10,370,727
City of Albany	2,588,918
City of Berkeley	15,796,369
City of Dublin	8,831,465
City of Emeryville	2,799,109
City of Fremont	33,264,459
City of Hayward	20,298,294
City of Livermore	12,722,700
City of Newark	6,029,275
City of Oakland	54,803,565
City of Piedmont	2,431,300
City of Pleasanton	13,720,684
City of San Leandro	11,907,775
Unincorporated County	19,671,892
City of Union City	9,763,468
ALAMEDA COUNTY TOTAL	**$225,000,000**

As shown in Table 11, the other approximate half ($200 million) is allocated to one of four regional pools within the County, based on poverty levels and the low-income and very low-income Regional Housing Needs Assessment totals for each region. This approach provides more funding for areas that have a higher level of documented need for affordable housing. The remaining ~27% of the program funds are allocated countywide.

Table 11. Alameda County Measure A1 Regional Allocations

Regional Pool	Allocated Funding	% of Total
North County	$89,325,065	44.7%
Mid County	49,803,134	24.9%
East County	27,332,372	13.7%
South County	33,539,429	16.8%
ALAMEDA COUNTY TOTAL	**$200,000,000**	**100.0%**

JPA-Owned Middle Income Project Model

Through the JPA-owned middle income project model, a private real estate developer works on behalf of a joint powers authority ("JPA") as the "project administrator," identifies an apartment building for purchase, and then approaches the city where the building is located to see if the city is interested in pursuing the acquisition. In working with the city, the JPA issues tax-exempt bonds and utilizes its property tax exemption to purchase the property or finance the creation of a new project that serves middle-income households with a carve-out for units reserved for low-income households.

The city can later choose to purchase the property from the JPA and determine what to do with the property further. There are two primary benefits of the JPA-owned middle income project model. The first is eligibility for a property tax exemption, resulting in financial benefits to the property owner that enable operations with restricted rents. The second is issuance of project-based tax-exempt bond financing that offers capital at lower cost than a traditional loan and is not subject to volume caps that apply to Low-Income Housing Tax Credit projects.

With both the property tax exemption and the use of tax-exempt bonds, JPA-owned middle-income housing enables JPAs to bid competitively for existing properties and to support reduced rents via long-term affordability restrictions. The JPA-owned middle-income model can be used for both new construction and acquisition of existing housing with the addition of affordability restrictions. The model has been predominantly used for the latter, although using the model for new construction would create new deed-restricted rental units that don't compete with existing local or state subsidy sources.

While this model is relatively new and in limited use, there are concerns:

- The model generally only supports moderate-income or the highest level of what is considered low income (i.e., 80-120% of Area Median Income) as opposed to the very low- and extremely low-income levels (i.e., 0-70% of AMI).
- Due to the complexity of the financing and the use of project-based bonds, fees charged for each development have been high compared to other affordable housing development.
- If the underwriting used to demonstrate that a project supports itself financially is overly aggressive, it could lead to default on the bonds, which could result in the loss of the affordability restrictions.
- Competition among JPAs could drive up purchase prices.
- There is not a clear enforcement mechanism or designated enforcement authority for the affordability restrictions.
- The model's effectiveness relies on low interest rates, which have been increasing for both market financing and public agency bonds.

Even with these concerns, the JPA-owned middle-income model could help in the right conditions to fill in a gap in affordable housing development. The SGVCOG should consider use of the model should a potential project be presented.

Bond Recycling

Bond recycling can help to maximize the utilization of affordable housing bonds for multifamily rental housing projects by using a prior year's tax-exempt private activity bond cap. An issuing agency can, in effect, "turn over" already reserved volume cap associated with a prior year's bonds, a volume cap that would otherwise expire upon the redemption of the bonds (i.e., the repayment of construction period financing). By issuing new bonds under the prior cap, the agency can finance more projects within the cap. Recycling bonds also reduces staff costs associated with the California Debt Limit Allocation Committee ("CDLAC") application process.

Should the SGVCOG decide to implement an affordable housing bond program, using bond recycling could increase the number of projects financed. The use of this tool is relatively new and pioneered by the California Housing Finance Agency ("CalHFA"). CalHFA accessed funds provided by Apple as part of its $2.5 billion commitment to affordable housing in California to facilitate its bond refunding program. In 2020, CalHFA completed financing for Redwood Apartments in Santa Rosa, the first project in the state to use recycled bonds as financing in combination with a loan through CalHFA's Mixed-Income Program. The project used recycled tax-exempt bonds originally allocated in 2018 to another affordable housing project. Through bond recycling, the original bond allocation from 2018 was used to provide an additional 96 units of affordable housing for residents earning between 50% and 70% of AMI.

CONCLUSION

Research conducted by Harris shows that becoming a bond issuer would be beneficial for the SGVCOG only if a dedicated local revenue source could be feasibly established. The most reliable local revenue source to pledge for bond debt service is property taxes.

Supporting affordable housing development and addressing homelessness are among the SGVCOG's legislative priorities. Using generally conservative assumptions, the creation of a General Obligation Bond Program funded by a Property Tax Rate between 0.01% and 0.025% (equivalent to $10 or $25 per $100,000 of assessed value, respectively) is estimated to generate between approximately $262 million and approximately $660 million of bond proceeds net of issuance and staffing costs. Harris estimated that a program of this size would support between 32 and 80 new affordable housing developments totaling between approximately 1,900 and approximately 4,800 affordable housing units. Included in the net proceeds and in addition to the new units, the program would provide between approximately $65 million and $165 million for other housing and homelessness programs such as efforts to address homelessness, to prevent displacement, to protect tenants, and downpayment assistance.

The property tax revenues would need to be pledged for 30 years to fund the program at the scale described above. The new affordable housing units would be developed over approximately 7 to 10 years. In addition to the impacts described above, the program would fund staffing sufficient to administer itself within a budget of approximately 5.5% to 6.0% of gross bond proceeds. This report also identifies several other considerations that could be incorporated into a bond issuance program.

Affordable Housing Bond Issuance - Economic Analysis and Development Projection

The estimates in this model assume that all of the SGVRHT's Member Cities participate in and contribute to the program. If only some of the cities participate, the scale of the program would be limited to the amount of assessed value in the participating Member Cities. A program on the scale estimated in this report would represent a significant investment from all property owners throughout the San Gabriel Valley. This report provides a better understanding of the scale of new affordable housing development that such a program could fund.

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