Proposition 1C

Housing and Emergency Shelter Trust Fund Act of 2006

Background

About 200,000 houses and apartments are built in California each year. Most of these housing units are built entirely with private dollars. Some units, however, receive subsidies from federal, state, and local governments. For instance, the state provides low-interest loans or grants to developers (private, nonprofit, and governmental) to subsidize housing construction costs. Typically, the housing must be sold or rented to Californians with low incomes. Other state programs provide homebuyers with direct financial assistance to help with the costs of a downpayment.

While the state provides financial assistance through these programs, cities and counties are responsible for the zoning and approval of new housing. In addition, cities, counties, and other local governments are responsible for providing infrastructure-related services to new housing—such as water, sewer, roads, and parks.

In 2002, voters approved Proposition 46, which provided a total of $2.1 billion of general obligation bonds to fund state housing programs. We estimate that about $350 million of the Proposition 46 funds will be unspent as of November 1, 2006.

Proposal

This measure authorizes the state to sell $2.85 billion of general obligation bonds to fund 13 new and existing housing and development programs. (See "An Overview of State Bond Debt" for basic information on state general obligation bonds.) Figure 1 describes the programs and the amount of funding that each would receive under the measure. About one-half of the funds would go to existing state housing programs. The development programs, however, are new—with details to be established by the Legislature. The major allocations of the bond proceeds are as follows:

- ***Development Programs ($1.35 Billion).*** The measure would fund three new programs aimed at increasing development. Most of the funds would be targeted for development projects in existing urban areas and near public transportation. The programs would provide loans and grants for a wide variety of projects, such as parks, water, sewage, transportation, and housing.
- ***Homeownership Programs ($625 Million).*** A number of the programs funded by this measure would encourage homeownership for low- and moderate-income homebuyers. The funds would be used to provide downpayment assistance to homebuyers through low-interest loans or grants. Typically, eligibility for this assistance would be based on the household's income, the

cost of the home being purchased, and whether it is the household's first home purchase.

- ***Multifamily Housing Programs ($590 Million).*** The measure also would fund programs aimed at the construction or renovation of rental housing projects, such as apartment buildings. These programs generally provide local governments, nonprofit organizations, and private developers with low-interest (3 percent) loans to fund part of the construction cost. In exchange, a project must reserve a portion of its units for low-income households for a period of 55 years. This measure gives funding priority to projects in already developed areas and near existing public services (such as public transportation).
- ***Other Housing Programs ($285 Million).*** These funds would be used to provide loans and grants to the developers of homeless shelters and housing for farmworkers. In addition, funds would be allocated to pilot projects aimed at reducing the costs of affordable housing.

Figure 1

Proposition 1C
Uses of Bond Funds

		Amount *(In Millions)*
Development Programs		
Development in urban areas[a]	Grants for various projects—including parks, water, sewer, transportation, and environmental cleanup—to facilitate urban "infill" development.	$850
Development near public transportation[a]	Grants and loans to local governments and developers to encourage more dense development near public transportation.	300
Parks[a]	Grant funding for parks throughout the state.	200
		$1,350
Homeownership Programs		
Low-income households	Variety of homeownership programs for low-income households.	$290
Downpayment assistance	Deferred low-interest loans up to 6 percent of home purchase price for first-time low- or moderate-income homebuyers.	200
Local governments	Grants to local governments which reduce barriers to affordable housing. Funds would be used for homebuyer assistance.	125
Self-help construction	Grants to organizations which assist low- or moderate-income households in building or renovating their own homes.	10
		$625
Multifamily Housing Programs		
Multifamily housing	Low-interest loans for housing developments for low-income renters.	$345
Supportive housing	Low-interest loans for housing projects which also provide health and social services to low-income renters.	195
Homeless youth	Low-interest loans for housing projects which provide housing for homeless young people.	50
		$590
Other Housing Programs		
Farmworker housing	Low-interest loans and grants for developing housing for farmworkers.	$135
Pilot programs[a]	Grants and loans for pilot projects to develop housing at reduced costs.	100
Homeless shelters	Grants for developing homeless shelters.	50

	$285
Total	**$2,850**

a New program.

The funds would be allocated over a number of years. The measure provides the Legislature broad authority to make future changes to these programs to ensure their effectiveness.

Fiscal Effect

Bond Costs. The cost to pay off these bonds would depend primarily on the following two factors.

- ***Payment Period.*** The state would likely make principal and interest payments on the bonds from the state's General Fund over a period of about 30 years.
- ***Interest Rate.*** Usually, the interest on bonds issued is exempt from both state and federal taxes because the bonds are for public purposes. This results in lower debt service payments for the state. Some programs proposed by this measure, however, would not be eligible for the federal tax exemption—resulting in a higher interest rate. This is because the housing programs provide funds for private purposes. (We estimate this would be the case for about 60 percent of the bonds.)

If the federally taxable bonds were sold at an average rate of 6.5 percent and the remaining bonds at an average rate of 5 percent, the cost to the state would be about $6.1 billion to pay off both the principal ($2.85 billion) and the interest ($3.3 billion). The average payment would be about $204 million each year.

Administrative Costs. The Department of Housing and Community Development and the California Housing Finance Agency would experience increased costs to administer the various housing and urban development programs. A portion of the programs' allocations—probably between $100 million and $150 million of the total bond funds—would be used to pay these administrative costs over time.