POLICY POSITION PAPER



Lead Committee: Taxation and Government Finance

Information Committee: Home Ownership Level of Government Committee: Legislative

Fall 2013

REDUCING THE VOTE THRESHOLD NEEDED TO APPROVE HOUSING BONDS

THE QUESTION

Should C.A.R. change its position on the vote threshold required to approve bonds to fund affordable housing?

ACTION

Optional.

POSITION

- 1. Sponsor legislation to reduce the vote threshold required to approve local bonds to fund affordable housing from two-thirds to 55%.
- 2. Support legislation to reduce the vote threshold required to approve local bonds to fund affordable housing from two-thirds to 55%.
- 3. Recommend that the president appoint a task force to study the issue.
- 4. Direct the chair of the committee to appoint a working group to study the issue.
- 5. Other.
- 6. Do Nothing. As a result, if legislation were to be introduced to reduce the vote threshold, C.A.R. would oppose the legislation since existing C.A.R. policy requires approval by a two-thirds vote.

DISCUSSION

Generally speaking, funding for affordable housing is no longer available. The voters of California approved Proposition 46 which C.A.R. supported in 2002 which provided \$2.1 billion in housing bonds and Proposition 1C in 2006 which provided \$2.85 billion in housing bonds. (Note: C.A.R. supported both housing bonds.) However, nearly all of the bond funds from Propositions 46 and 1C have been allocated. In addition, redevelopment agencies were required to deposit 20% of their available revenue into a fund to increase, improve, and preserve a community's supply of affordable

housing. However, to balance the 2011-12 State Budget, ABx1 26 was enacted which eliminated the redevelopment agencies.

The lack of a permanent source of affordable housing funding resulted in the introduction in 2012 of Senate Bill 1220 and in 2013 of Senate Bill 391 both of which would have imposed a \$75 per document tax on the recording of real estate instruments. (Note: C.A.R. between business meetings decided to support SB 1220 in return for excluding documents related to a sale transfer; however, after SB 391 was introduced, the Board of Directors voted to take an "oppose" position on SB 391.) It's estimated that such a tax would generate on average \$500 million a year to fund affordable housing. It is likely that such measures will continue to be introduced until a permanent source of funding for affordable housing is established. And, given that the Democrats are either at or near a two-thirds majority in both houses of the legislature, the two-thirds vote required to impose such a tax may be within reach.

The gloomy forecast regarding the state of affordable housing in the state will put additional pressure on policy makers to find a permanent source of funding for affordable housing. According to *The State of Housing in California 2012: Affordability Worsens, Supply Problems Remain* from the California Department of Housing and Community Development:

Despite six years of decline in housing prices, the State still lacks an adequate supply and mix of housing, in the right locations, and affordable to families, the workforce and special needs populations. Furthermore, the affordability of rental housing in many markets has gradually deteriorated due to falling incomes and rising rents. Regarding affordability of ownership housing, financing remains difficult for many due to tight lending requirements.

The report concludes with: "Aggressive actions to increase the supply and affordability of housing, support the residential construction industry, and preserve affordable housing stock are critical to supporting California's economic competitiveness and improving the quality of life for its residents."

In June 2003, C.A.R. established the Vote Threshold Reduction Task Force to review C.A.R.'s policy regarding appropriate vote threshold requirements for local bonds and special taxes. At the time the task force was formed, C.A.R.'s position on vote thresholds was determined on a case-by-case basis. More specifically, C.A.R.'s policy was to generally oppose vote threshold reductions for taxes borne

solely by property owners, and to support vote threshold reductions for taxes that are paid by the full community to meet infrastructure needs. The task force concluded that C.A.R. should maintain its case-by-case decision making approach. In addition, the task force recommended that general obligation bonds should be used exclusively for capital expenditures, and not to finance day-to-day operating and maintenance costs. C.A.R.'s Board of Directors adopted the task force's final report in January 2005.

The one exception C.A.R. has made with regard to vote threshold reductions relates to reducing the vote required for local education bonds. In March 1991, the C.A.R. Board of Directors voted to "favor" ACA 6 which would have reduced the vote requirement for local school bonds from two-thirds to a simple majority. That measure became Proposition 170 on the November 1993 ballot which the C.A.R. Board voted to support. Proposition 170 failed, garnering only 30.6% of the vote. However, in June 2000 the C.A.R. Board voted to support Proposition 39 which reduced the vote threshold for school facility bonds to 55% which was approved with 53.4% of the vote.

C.A.R. is often pressured for what it believes would be an appropriate permanent source of funding for affordable housing. C.A.R. does not have affirmative policy in this area but generally responds that it would not object to any source of funding that spreads the burden across society. Given that C.A.R. supported reducing the vote required for school construction bonds, should C.A.R. consider a similar move on affordable housing bonds? It is unlikely that smaller cities and counties would take advantage of such a vote reduction; however, larger metropolitan areas such as San Francisco, Los Angeles and San Diego may do so.

Moreover, if C.A.R. were to sponsor vote reduction legislation, it would be in a stronger position to direct the allocation bond funds -- in particular, how much of the funding would be used for each affordable housing need; for example, how much would have to be devoted to down payment assistance versus emergency shelters. This would be in sharp contrast to existing affordable housing proposals which are, perhaps deliberately, vague about how the funds generated will be used. Or, the legislation could be limited to expanding the stock of homes available; in other words, the bonds could be used only for new home construction and the rehabilitation of existing blighted homes. Needless to say, limiting the bonds to only expanding the stock of homes would be more politically difficult to achieve.

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