



SAN DIEGO
HOUSING
COMMISSION

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San Diego Housing Commission (SDHC)

Approval of a Memorandum of Understanding to Participate in a Tax-Exempt Bond Recycling Program

Housing Authority of the City of San Diego Agenda Item #3
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Real Estate Division



SDHC – Bond Recycling MOU

Overview

- Tax-exempt Multifamily Housing Revenue Bonds, also known as private activity bonds, are an essential resource to finance the creation and preservation of affordable housing.
 - Bond issuance does not create financial liability to SDHC, Housing Authority, nor City.
- The 1986 Federal Tax Reform Act determines how much tax-exempt private activity bond debt a state can issue (Annual State Ceiling) in a calendar year.
 - 2021 State Ceiling, also known as a volume cap, for California: \$4.1 billion
 - Private Activity Bonds are used for a number of programs in California, not just affordable housing.
- Beginning in 2020, demand for tax-exempt bonds exceeded annual bond allocation.
 - Previously noncompetitive tax-exempt bonds became competitive.



SDHC – Bond Recycling MOU

Overview (Continued)

- Traditionally, an affordable housing project would pay off the majority of its tax-exempt bonds when the construction phase was completed.
 - At this stage, the bonds are “retired” and no longer available.
- Recycled bonds allow the reuse of volume cap authority that would otherwise be retired after completion of construction.
- A recycled bond program would provide a new source of tax-exempt financing that will satisfy some of the demand on new tax-exempt bonds.
- The California Debt Limit Allocation Committee regulations allow for applications that propose to use recycled bonds as part of their financing to score additional points.



SDHC – Bond Recycling MOU

Overview (Continued)

- California Housing Finance Agency (CalHFA) has a large capital investment from Apple and is using a portion to purchase and reissue recycled bonds.
- Bond recycling allows for the re-use of previously allocated bond capacity that is normally lost, and recycles private activity bonds into a new project, without the use of limited low-income housing tax credits.
- Volume cap allocations through recycled bonds do not count toward the State's \$4.1 billion limit.
- Bond recycling is a financing vehicle that eases pressure on volume cap without requiring additional state or local investment by:
 - Creating a mechanism for projects to request smaller allocations,
 - Giving 80/20 projects an alternative to California Debt Limit Allocation Committee and new tax-exempt Multifamily Housing Revenue Bonds,
 - Creating innovative financing vehicles that do not use volume cap: recycled bonds can be paired with soft sources to create an alternative to bond and 4 percent tax credit financing.

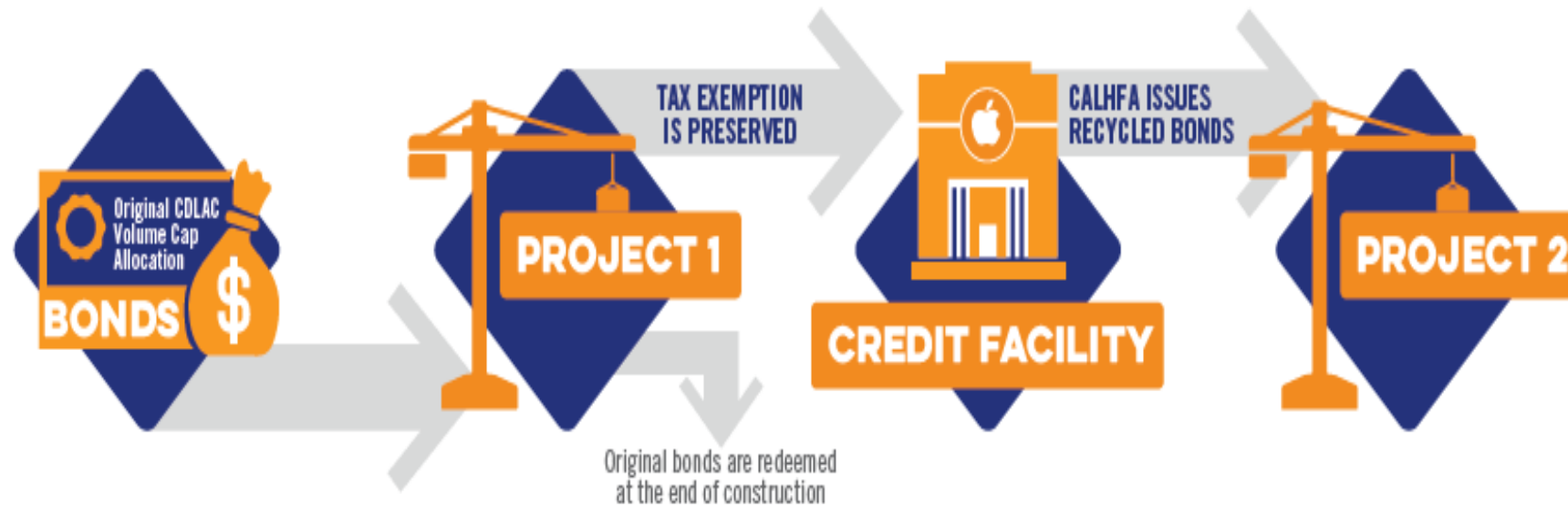


SDHC – Bond Recycling MOU Rules

- Requires recycled bonds to be used for an eligible project within six months of the effective date of the prepayment.
- Subject to public notice requirements (Tax Equity and Fiscal Responsibility Act).
- Recycled bonds are not eligible for Low-Income Housing Tax Credits.
- Same household income affordability rules as other tax-exempt bonds.
- Recycled bonds cannot be re-recycled.
- Recycled bonds can only be used for multifamily housing.

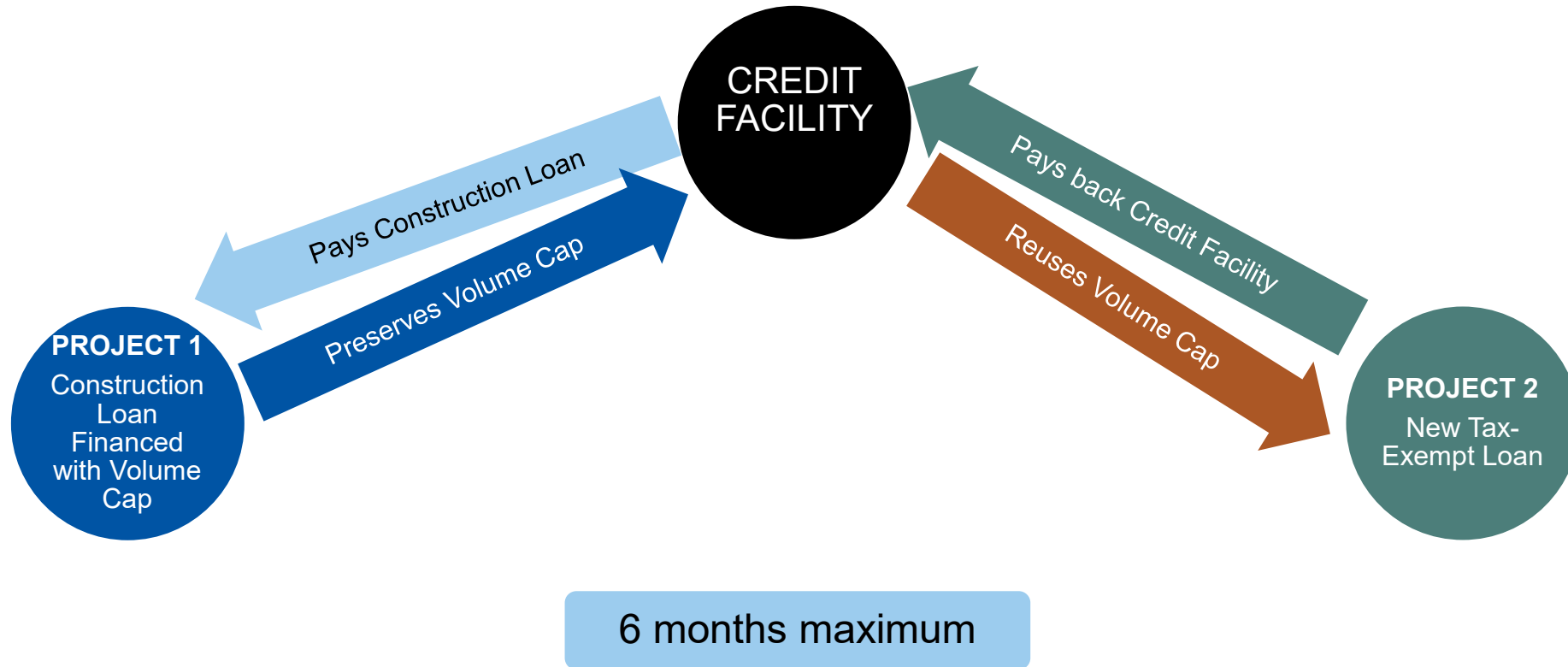


SDHC – Bond Recycling MOU Preserving and Reusing Volume Cap



SDHC – Bond Recycling MOU

Preserving and Reusing Volume Cap (Continued)



SDHC – Bond Recycling MOU

Staff Recommendations

That the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- Authorize the execution of a Memorandum of Understanding (MOU) between the Housing Commission, the Housing Authority, and the California Housing Finance Agency (CalHFA) to participate in a tax-exempt bond recycling program;
- Authorize the Housing Commission's President & CEO, or designee, to modify MOU, if necessary, without further action by the Housing Commission's Board of Commissioners (Board) or the Housing Authority, but only if and to the extent that such changes comply with the terms of the executed MOU and are necessary to fulfill federal and state funding requirements;
- Authorize the Housing Commission's President & CEO, or designee, to take such actions as are necessary, convenient and/or appropriate to implement this approval and delegation of authority by the Housing Commission upon advice of the General Counsel; and
- Authorize the Housing Commission's President & CEO, or designee, to execute all necessary documents and instruments that are necessary and/or appropriate to implement these approvals, in a form and format approved by General Counsel, and to take such actions necessary and/or appropriate to implement these approvals.



SDHC – Bond Recycling MOU

Questions & Comments

