



REPORT TO THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE ISSUED: June 6, 2019

REPORT NO: HAR19-021

ATTENTION: Chair and Members of the Housing Authority of the City of San Diego
For the Agenda of June 25, 2019

SUBJECT: Application for Mortgage Credit Certificate Allocation

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

That the Housing Authority of the City of San Diego approve the submission of an application on behalf of the City of San Diego for a Mortgage Credit Certificate Program allocation of up to \$25 million to assist first-time homebuyers in the City of San Diego.

STAFF RECOMMENDATION

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

- 1) Approve the submission of an application and payment of required application fee to the California Debt Limit Allocation Committee (CDLAC) for a Mortgage Credit Certificate (MCC) Program allocation of up to \$25 million in Fiscal Year 2020;
- 2) If the San Diego Housing Commission (Housing Commission) receives less than a \$25 million allocation, authorize staff to submit additional MCC applications to CDLAC in Fiscal Year 2020 up to the approved \$25 million in total allocation;
- 3) Authorize the Housing Commission's President and Chief Executive Officer (President & CEO), or designee, to:
 - a. Execute any and all documents necessary to effectuate the transaction and implement the project in a form approved by General Counsel, and to take such actions as are necessary, convenient and/or appropriate to implement the approvals upon advice of General Counsel; and
 - b. Further authorize the 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 General Counsel.

SUMMARY

Authorized by Congress under the Federal Tax Reform Act of 1984, the MCC Program provides financial assistance for the purchase of owner-occupied housing. In 1985, the State of California (State) adopted legislation authorizing local bond issuing agencies to make MCCs available in California. The program is designed primarily to benefit first-time homebuyers of new or existing housing units throughout the State. Applications for MCC allocations are made by local agencies, such as the Housing Commission, to CDLAC.

The Internal Revenue Service (IRS) Tax Code sets the guidelines for income and purchase price limitations. MCCs can be issued in designated high-cost areas and in targeted census tracts to buyers earning up to 140 percent of Area Median Income (AMI). Sales price limits are based on the average area purchase price safe harbors, as published annually by the IRS. The limits are set at 90 percent and 110 percent of the average area purchase price in non-targeted and targeted areas, respectively.

The Local Program

An MCC reduces the federal income tax liability of the homebuyer, resulting in an increase in the homebuyer's net earnings and an increase in the homebuyer's capacity to qualify for a home loan. The homebuyer may apply for an MCC as a stand-alone application or in conjunction with the Housing Commission's first-time homebuyer deferred loan and closing cost grant programs. Homebuyers work with one of the Housing Commission's participating lenders to submit the application while in escrow to purchase their home. Housing Commission staff reviews the application for program compliance and issues the MCC commitment. The MCC is issued to the homebuyer after the close of escrow and is registered with the IRS. It is good for the life of the loan; it is non-transferable; and it is revoked if the certificate holder moves out of the qualifying home.

Since the inception of the City of San Diego's MCC Program in August 1990 (approved in report HCR89-140), the Housing Commission has issued 3,671 MCCs to assist households with their home purchase.

The current MCC program parameters are as follows:

Eligible Area:	City of San Diego
MCC Credit Amount:	20%
Income Limit:	
1 - 2 persons	120% of AMI (currently \$116,760)
3 + persons	140% of AMI (currently \$136,220)
Sales Price Limit:	
Targeted	110% of Average Area Purchase Price (currently \$731,177)
Non-Targeted	90% of Average Area Purchase Price (currently \$598,235)
Homebuyer Application Fee:	\$620

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The Allocation Request

The requested \$25 million allocation would help approximately 105 families purchase a home. The IRS requires 20 percent of the allocation be set aside for targeted census tracts for a period of one year, and CDLAC requires 40 percent of the allocation be reserved for low-income households.

In the event a \$25 million MCC allocation is not awarded in the first application round for Fiscal Year 2020, staff is requesting authorization to submit additional MCC application(s) to CDLAC during Fiscal Year 2020 up to the approved \$25 million in total allocation.

Since the last allocation of \$25 million was received in May 2018, 75 percent of the allocation has been committed to eligible households in the following categories:

Category	Percentage
Low Income (80% AMI, currently \$85,600 for a family of 4)	36%
Targeted Census Tracts – Low Income	11%
Targeted Census Tracts – Moderate Income	4%
Non-Targeted Census Tracts – Moderate Income	24%

The following table shows the MCC allocations received over the past 5 years.

Year	Allocation	Percentage Allocated as of May 2019	No. Assisted
2014	\$25 million (2 awards received)	100%	125
2015	\$0 (no application submitted)	n/a	0
2016	\$0 (no application submitted)	n/a	0
2017	\$8.8 million	100%	39
*2018	\$25 million	75%	81

*It is anticipated that the remaining balance of the 2018 allocation will be committed by June 30, 2019.

AFFORDABLE HOUSING IMPACT

With an award of \$25 million, approximately 105 MCCs will be issued to first-time homebuyers in a two-year period.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action will be as follows. It is anticipated staff will issue approximately 90 MCCs from this award during Fiscal Year 2020 and 15 MCCs during Fiscal Year 2021. The MCC allocation does not include an allocation for administration; therefore, program administration costs are covered by homebuyer application fees.

Fiscal Year	Sources		Uses	
2020	MCC Fees (90 @ \$620)	\$55,800	CDLAC Application Fee	\$ 8,750
2021	MCC Fees (15 @ \$620)	\$ 9,300	Program Administration	\$56,350
	TOTAL	\$65,100	TOTAL	\$65,100

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ENVIRONMENTAL REVIEW

The submission of an application for the MCC Program is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

Carrie Tapia

Carrie Tapia
Housing Programs Manager
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

Hard copies are available for review during business hours at the security information desk in the main lobby and the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Governance & Legislative Affairs" section of the San Diego Housing Commission website at www.sdhc.org

HOUSING AUTHORITY OF
THE CITY OF SAN DIEGO

RESOLUTION NUMBER HA-_____

DATE OF FINAL PASSAGE _____

A RESOLUTION OF THE HOUSING AUTHORITY OF THE
CITY OF SAN DIEGO AUTHORIZING THE SAN DIEGO
HOUSING COMMISSION TO SUBMIT AN APPLICATION FOR
A MORTGAGE CREDIT CERTIFICATE PROGRAM
ALLOCATION OF UP TO \$25,000,000 TO ASSIST FIRST-TIME
HOMEBUYERS IN THE CITY OF SAN DIEGO, AND
APPROVING RELATED ACTIONS.

WHEREAS, U.S. Internal Revenue Code section 146 limits the amount of tax-exempt private activity bonds that may be issued in any calendar year by entities within a state and authorizes the legislature of each state to provide the method of allocation within the state; and

WHEREAS, the California Debt Limit Allocation Committee (CDLAC) administers the tax-exempt private activity bond program in California, which includes CDLAC's annual allocation of Mortgage Credit Certificates (MCCs) to qualified local agencies, such as the San Diego Housing Commission (Housing Commission) acting on behalf of the Housing Authority of the City of San Diego (Housing Authority); and

WHEREAS, the Mortgage Credit Certificate Program (MCC Program) is designed primarily to benefit first-time homebuyers of new or existing housing units whose annual income is below a specified amount and who will incur acquisition costs for the home purchase below a specified amount; and

WHEREAS, the MCC Program allows each qualified homebuyer to reduce federal income tax liability by an amount equal to a portion of the interest paid during the year on a

home mortgage, which effectively increases the homebuyer's net income and bolsters the homebuyer's capacity to qualify for a home loan; and

WHEREAS, under the MCC Program, an MCC is issued to the homebuyer after the close of escrow on the home purchase, is registered with the Internal Revenue Service, remains in effect for the life of the home mortgage, and is non-transferable; and

WHEREAS, the City Council supports the goal of increasing local homeownership, and the MCC Program is an effective, efficient means to advance that goal; NOW, THEREFORE,

BE IT RESOLVED, by the Housing Authority, as follows:

1. The Housing Commission President and Chief Executive Officer (President & CEO), or designee, is authorized, on behalf of the Housing Authority, to submit one or more applications to CDLAC during fiscal year 2020 for MCC Program allocations in an aggregate total up to \$25,000,000 for use in the City of San Diego.

2. The Housing Commission President & CEO, or designee, is authorized to sign any and all documents necessary to effectuate the Housing Commission's application for the annual MCC allocation and to administer the local MCC Program, in a form approved by Housing Commission General Counsel, and to take such actions as are necessary, convenient, and appropriate to implement the intent of this Resolution, upon the advice of Housing Commission General Counsel.

APPROVED: MARA W. ELLIOTT, General Counsel

By _____
Marguerite E. Middaugh
Deputy General Counsel

MEM:jdf
06/10/19
Or.Dept: SDHC
Doc. No.: 2025636



The City of San Diego
Item Approvals

Item Subject: Application for Mortgage Credit Certificate Allocation.

Contributing Department	Approval Date
DOCKET OFFICE	06/03/2019

Approving Authority	Approver	Approval Date
HOUSING COMMISSION FINAL DEPARTMENT APPROVER	DAVIS, JEFF	05/30/2019
EXECUTIVE VICE PRESIDENT	DAVIS, JEFF	06/04/2019
CITY ATTORNEY	MIDDAUGH, MARGUERITE	06/11/2019