City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 22, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO # 84: SPECIAL/DEDICATED TAX TO FUND AFFORDABLE HOUSING

Mayor Euille asked, with the establishment of the new Alexandria housing development corporation (HDC), should the City consider having a special/dedicated tax to fund affordable housing needs? What about a bond program?

There are many alternative ways to fund affordable housing. As indicated in Budget Memo #49, approximately $11.1 million is set aside for affordable housing in the proposed FY 2005 budget, including $2.2 million in the Housing Opportunities Fund (HOF) and $3.7 million unallocated in the Housing Trust Fund (HTF). In addition, outside funding sources, such as federal Low Income Housing Tax Credits, Virginia Housing and Development Authority (VHDA) loans, project-based tax-exempt housing revenue bonds, loans or other financial support through Fannie Mae and related entities, Federal Home Loan Bank Board loans, as well as private commercial mortgage sources, all provide a range of funding options and resources for a HDC. These options, coupled with portions of the $11.1 million in planned City, CDBG and HOME affordable housing monies, should provide sufficient resources to enable the new HDC to operate and undertake projects in its first year of operation.

While additional affordable housing resources are likely to be needed over the long term, it's too early to determine the amounts and timing of those needs. As a result, a dedicated tax or a new or increased funding source to fund affordable housing needs is best considered for FY 2006 or later. In staff's view, Council should consider the creation of a general, rather than a dedicated, source of revenue. A general revenue source, and not a dedicated tax, will give the current Council and future Councils greater flexibility. If any new or enhanced income source were established "in parallel" with an increase in affordable housing funding, and not on a dollar-for-dollar quid pro quo basis, Council would not be locked in, during each budget cycle, to provide a specific revenue-driven level of funding. Instead, Council could set the affordable housing budget line item based on projected project needs, as well as existing housing resource financial balances.

In regard to the bond program question, the most common type of bond used to support affordable housing is a multi-family apartment property project revenue bond program where tax-exempt revenue bonds are issued as a first trust financing backed by project rents. Such bonds would be issued either through VHDA or ARHA, with the HDC as part of the project ownership entity. The bonds would be secured (in most instances) by the value of the multi-family property. Since the project income stream, even with a mix of market rate units, is not usually sufficient to finance a project, second tier loans and/or grants from other sources, such as the HOF or HTF, may be needed.

General obligation bonds are not recommended for affordable housing projects for a number of reasons. First, with many other funding sources (including project revenue bonds) available, general obligation bonds are not key to the success of affordable housing projects. Second, general obligation bonds issued for affordable housing would add to the City's already growing debt burden and increasing debt ratios. Third, general obligation bond capacity is a limited resource whose capacity needs to be perpetually flexible and available for public facilities and infrastructure. Finally, federal laws related to tax-exempt bonds make it difficult, and in some cases not feasible, to loan or grant general government tax-exempt general obligation bonds to a private entity such as the non-profit HDC.

While not a dedicated tax, the voluntary contribution of $1.00 per square foot, which new development pays into the HTF, is being studied for a potential increase as a way of adding to the amount of affordable housing funds.

Finally, an increase in the City General Fund contribution to the HOF from $0.3 million annually to a larger amount could be considered as the clearest, most efficient and most flexible way to increase the amount of affordable housing monies.