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San Francisco Plans \$200 Million of Bonds to Ease Housing Crunch.

San Francisco Mayor Ed Lee will seek voter approval for the first housing bond since 1996 as his city becomes the least affordable U.S. housing market and uproar grows about gentrification fueled by the technology boom.

Lee plans to ask the city's Board of Supervisors to place a housing bond of at least \$200 million on the November ballot, spokeswoman Christine Falvey said. Unlike similar proposals rejected by voters in 2002 and 2004, Lee's housing bond plan won't trigger an increase in property taxes, a change that appeals to voters, she said.

"San Francisco is in a serious housing crisis, but we have aggressive housing goals and we need to put resources behind those goals," Falvey said in a telephone interview. "The mayor wants to make sure that San Francisco remains affordable for low- and middle-income families."

Lee's proposal would provide funding for affordable housing. Growth of technology employment in San Francisco, boosted by tax breaks Lee championed in the city's blighted Mid-Market district, has transformed California's fourth-largest city into one of the most expensive housing markets in the country. Unions, affordable-housing advocates and others have protested the incentives, accusing the mayor of damaging the city's character by transforming it into a place only the wealthy can afford.

Least Affordable

San Francisco will be the least affordable housing market in the U.S. this year, with 72 percent of median income needed to pay a 30-year, fixed-rate mortgage, according to a forecast by realtor.com. The average rent in the San Francisco metro area was \$2,802 at the end of last year, second-highest in the U.S. behind New York City, according to Carrollton, Texas-based MPF Research.

Lee, who is seeking re-election in November, identified housing as his top priority when he unveiled an "affordability and shared prosperity agenda" in January that included the general-obligation bond that's part of a goal to build and renovate 30,000 homes by 2020. Lee won his seat in 2011 with backing from the technology industry after being appointed interim mayor earlier that year.

While voters approved a \$100 million bond in 1996 to build or renovate low-income apartments, they rejected a similar \$250 million plan in 2002 and another \$200 million bond proposal two years later. General-obligation bond measures need two-thirds approval to pass.

'Very Difficult'

"It's very difficult to get past the two-thirds threshold," said Gabriel Metcalf, executive director of SPUR, a nonprofit urban policy organization. "Most people don't get to live in affordable housing, so it's a case where we're asking the voters to do something that is altruistic."

San Francisco voters in November approved a \$500 million transportation bond. Lee's administration promoted the plan by stressing that it wouldn't raise property-tax rates.

He plans to do the same for his proposed housing bond, which would be used to renovate and build homes for working families and the city's poorest residents. Under a 10-year capital plan instituted in 2006, the city is required to retire old debt before issuing new bonds so that property taxes don't rise.

The demand for California debt is very high in the near term, said Michael Johnson, managing partner at Gurtin Fixed Income Management. San Francisco general-obligation bonds "are attractive to investors who are looking for high credit quality," said Johnson, whose company oversees \$9.2 billion in Solana Beach, California.

Five-Decade Lows

As municipal yields hover above five-decade lows, investors in the \$3.7 trillion municipal market have treated San Francisco securities as better than AAA debt, even though Standard & Poor's, Moody's Investors Service and Fitch Ratings grade it one step lower.

The 1996 housing-bond measure led the city to issue \$20 million in taxable general-obligation bonds each year from 1998 to 2000 and borrow the remaining \$40 million in 2001, data compiled by Bloomberg show.

About 85 percent of the bond proceeds went to developing affordable housing, with the remaining 15 percent financing down-payment assistance to low-income, first-time home buyers, offering documents for the 1998 sale show.

None of the original affordable-housing bonds remain outstanding: The city included the securities in a \$271 million refinancing deal in 2008 that also refunded debt for Golden Gate Park and the Asian Art Museum of San Francisco.

Additional Debt

San Francisco's economy is on an upswing and its "budget has the capacity to absorb additional debt without necessarily affecting credit quality," said Chris Morgan, director of U.S. local government at Standard & Poor's in San Francisco.

The Massachusetts Development Finance Agency issued \$95.5 million in tax-exempt bonds for six affordable-housing development projects in Boston, the agency announced March 2. In Seattle, another West Coast city in the midst of a tech boom, affordable-housing advocates, including staff for council members Kshama Sawant and Nick Licata, last month recommended issuing at least \$500 million in bonds for low-income housing.

San Francisco's Lee, who faces no major challengers in his re-election bid, should use his campaign and the housing bond to frame his second term, said Corey Cook, an associate professor of politics at the University of San Francisco.

Lee will have to build a broad coalition of support, including city lawmakers, public-housing advocates and housing developers, to win passage, Cook said.

If he doesn't, "then he's at risk of not having the public-policy tools to respond to the public's top concern," Cook said. "That would make for a very difficult term as mayor."

Income disparity, aggressive competition for a limited supply of land and a frenzy of speculation on existing homes fueled the city's housing woes, said Peter Cohen, co-director at the Council of Community Housing Organizations in San Francisco.

"You put those things together, you stir and you have on your hands one of the worst affordable-housing crises this city has ever experienced," he said.

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