

Item 3.7

JPA Bonds for Moderate-income Rental Housing

Department of Housing

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Department of Finance

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Office of Economic Development

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Summary of Structure

- ❑ City joins a Joint Powers Authority (JPA) as a non-voting additional member
- ❑ Allows for issuance of tax-exempt public purpose bonds
 - Bonds used to purchase multifamily properties
- ❑ Units are income-restricted – generally at 80% AMI, 100% AMI, and 120% AMI levels
 - Rent increases capped at 4% per year
- ❑ Between years 15 and 30, City may acquire the property by assuming all outstanding debt
- ❑ If City declines, JPA sells property without affordability restrictions
 - Net sale proceeds to City after paying off debt

Staff Recommendation

Direct the Administration not to move forward with releasing a term sheet in order to pursue membership in one or more JPAs for moderate-income housing.

| Overview of Staff Concerns

No Third Party to Oversee Income Compliance

- Entity overseeing property also receives ongoing fees in form of B bonds
- Could be perverse incentive to increase revenue and rents in order to repay debt
- City is only a non-voting ‘Alternate Member’ of JPA with no voting rights

No obvious mitigant:

- Inherent to the structure of the product

Overview of Staff Concerns

Transaction fees are high relative to public benefit to renters

- Fees directly impede ability to further reduce rents
- Ongoing fees exceed the affordability benefit

Potential partial mitigants:

- Each transaction must demonstrate rent reductions meet or exceed forgone property tax revenue within 10 years
- Must set rents at 30% of income including utility payments

Overview of Staff Concerns

High purchase offers may alter the San José real estate market

- Concern that acquisition prices offered may exceed market-value
- Product could alter San José's real estate market
- Overpayment increases debt on property

Mitigants:

- Require third-party appraisal prior to purchase
- Require physical needs assessment for each property to ensure capital replacement reserves are properly sized

Policy Alternative #2

Direct staff to work with the Bay Area Housing Finance Authority (BAHFA) to create a Bay Area JPA to issue this type of bond.

- **Pros:**

- Created specifically to serve affordable housing needs in Bay Area
- BAHFA staff has expressed strong interest to City in working on this model regionally
- Governed locally by ABAG and MTC
- City can play a role in its creation to meet our objectives

- **Cons:**

- BAHFA needs additional time and resources
- City staff resources are limited; moderate-income housing plan previously deprioritized (#23)

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