

2002

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HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002.



OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002.

- Creates trust fund to: provide shelters for battered women; clean and safe housing for low-income senior citizens; emergency shelters for homeless families with children; housing with social services for homeless and mentally ill; repairs/accessibility improvements to apartments for families and handicapped citizens; military veteran homeownership assistance; and security improvements/repairs to existing emergency shelters.
- Funded by bond issue of two billion one hundred million dollars (\$2,100,000,000).
- Makes cities and counties eligible to receive specified funds.
- Subjects expenditures to independent audit.
- Appropriates money from state General Fund to repay bonds.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- State cost of about \$4.7 billion over 30 years to pay off both the principal (\$2.1 billion) and interest (\$2.6 billion) costs on the bonds. Payments of about \$157 million per year.

FINAL VOTES CAST BY THE LEGISLATURE ON SB 1227 (PROPOSITION 46)

Assembly:	Ayes 54	Noes 21
Senate:	Ayes 27	Noes 11

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

About 150,000 houses and apartments are built in California each year. Most of these units are built entirely with private dollars. Some, however, receive subsidies from federal, state, and local governments. For some of the units that receive *state* funds, the state provides low-interest loans or grants to developers (private, nonprofit, and local governments). Typically, there is a requirement that the housing built be sold or rented to Californians with low incomes. Other state programs provide homebuyers with direct financial assistance to help with the costs of a down payment.

The amount of funds that the state has provided to these types of housing programs has varied considerably over time. In 1988 and 1990, voters approved a total of \$600 million of general obligation bonds to fund state housing programs (these funds have been spent). Since that time, the state typically has spent less than \$20 million annually in General Fund revenues on state housing programs. On a one-time basis, however, the state recently provided more than \$350 million in General Fund revenues for these purposes.

PROPOSAL

This measure allows the state to sell \$2.1 billion of general obligation bonds to fund 21 housing programs. General obligation

bonds are backed by the state, meaning that the state is required to pay the principal and interest on these bonds. General Fund revenues would be used to pay these costs over about 30 years.

Figure 1 describes the programs and the amount of funding that each would receive under the measure. Most of the funds would go to existing state housing programs. A number of the programs, however, are new, with details to be established by subsequent legislation. The major allocations of the bond proceeds are as follows:

- **Multifamily Housing Programs (\$1.11 Billion).** This measure would fund a variety of housing programs aimed at the construction of rental housing projects, such as apartment buildings. These programs generally provide local governments, nonprofit organizations, and private developers with low-interest (3 percent) loans to fund part of the construction cost. In exchange, a project must reserve a portion of its units for low-income households for a period of 55 years. This measure gives funding priority to projects in already developed areas and near existing public services (such as public transportation).
- **Homeownership Programs (\$405 Million).** A number of the programs funded by this measure would encourage homeownership for low- and moderate-income homebuyers. Most of the funds would be used to provide down payment

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

assistance to homebuyers through low-interest loans or grants. Typically, eligibility for this assistance would be based on the household's income, the cost of the home being purchased, and whether it is the household's first home purchase.

- **Farmworker Housing (\$200 Million).** These funds would be used to provide loans and grants to the developers of housing for farmworkers. Program funds would be used for both rental and owner-occupied housing.
- **Other Programs (\$385 Million).** Additional funds would be allocated for the construction of homeless shelters, payments to cities and counties based on their approval of housing units, provision of mortgage insurance for high-risk homebuyers, and capital needs of local code enforcement departments.

Most of the program funds probably would be allocated over a three- to five-year period. For many of the programs, the measure limits the length of time available for the funds to be spent. If after a specified length of time—between 18 and 48 months—a program's funds are unspent, they would be reallocated to a different housing program.

The measure provides the Legislature broad authority to make future changes to the programs funded by the measure. The measure also requires the State Auditor to perform periodic audits of the agencies administering the funds and the recipients of the funds.

Impact of Funds. The funds from this measure typically would be used together with other government monies to provide housing assistance. In total, the bond funds would provide annual subsidies for about 25,000 multifamily and 10,000 farmworker households. The funds would also provide down payment assistance to about 60,000 homebuyers and help provide space for 30,000 homeless shelter beds.

FISCAL EFFECT

Bond Costs. The cost of these bonds would depend on their interest rates and the time period over which they are repaid. Generally, the interest on bonds issued by the state is exempt from both state and federal income taxes—lowering the payment amounts for the state. Historically, the type of bonds proposed by this measure have not received the federal tax exemption—resulting in a higher interest rate for the bonds. If the bonds were sold at an average interest rate of 6.25 percent (the current rate for this type of bond) and repaid over 30 years, the cost would be about \$4.7 billion to pay off both the principal (\$2.1 billion) and interest (\$2.6 billion). The average payment would be about \$157 million per year.

Administrative Costs. Several agencies would experience increased costs to administer the various housing programs funded by this measure. Under existing law, a portion of the programs' allocations from the bond funds—up to about \$100 million—could be used for these administrative costs. The measure also authorizes some recipients to be charged for administrative costs, thus increasing funds available for this purpose.

FIGURE 1

PROPOSITION 46 USES OF BOND FUNDS

(In Millions)		Amount
Multifamily Housing Programs		
Multifamily Housing	Low-interest loans for affordable housing developments. Units reserved for low-income renters in most cases for 55 years.	\$800.0
Supportive Housing	Low-interest loans for housing projects which also provide health and social services to low-income renters.	195.0
Preservation ^a	Funds to maintain affordability of units in projects where prior agreements are expiring.	50.0
Housing Trust Funds ^a	Grants to local governments and nonprofit organizations to fund local housing programs.	25.0
Health and Social Services	Low-interest loans for the construction of space for health and social services connected to affordable housing projects.	20.0
Student Housing	Low-interest loans for housing near state universities. Units reserved for low-income students.	15.0
Disabled Modifications	Grants for modifications to rental housing to accommodate low-income renters with disabilities.	5.0
		\$1,110.0
Homeownership Programs		
Homebuyer's Down Payment Assistance	Deferred low-interest loans up to 3 percent of home purchase price for first-time low- and moderate-income homebuyers.	\$117.5
CalHome	Variety of homeownership programs for low-income households.	115.0
Building Equity and Growth in Neighborhoods ^a	Grants to local governments to fund homebuyer assistance in high-density developments.	75.0
Nonprofit-Sponsored Counseling	Down payment assistance for first-time, low-income homebuyers participating in specified counseling programs.	12.5
Self-Help Construction Management	Grants to organizations which assist low- and moderate-income households in building their own homes.	10.0
School Facility Fees	Down payment assistance to eligible homebuyers to cover some or all of the fees paid to school districts to fund new school facilities.	50.0
School Personnel	Loans to school personnel for down payment assistance.	25.0
		\$405.0
Farmworker Housing Programs		
Farmworker Housing	Low-interest loans and grants for construction of housing for farmworkers.	\$155.0
Migrant Workers	Low-interest loans and grants for projects which serve migratory workers.	25.0
Health Services	Low-interest loans and grants for farmworker housing which also provides health services.	20.0
		\$200.0
Other Programs		
Emergency Housing Assistance	Grants for the construction of homeless shelters.	\$195.0
Jobs-Housing Improvement ^a	Grants to local governments based on the amount of housing they approve.	100.0
Housing Loan Insurance	Insurance for high-risk housing mortgages.	85.0
Code Enforcement	Grants for capital expenditures for local code enforcement departments.	5.0
		\$385.0
Total		\$2,100.0

^a New program for which details would be established by subsequent legislation.

ARGUMENT IN FAVOR OF PROPOSITION 46

YES on Proposition 46 will provide emergency shelters for battered women, affordable housing for seniors and low-income families, and shelters with social services for the homeless. That is why the Congress of California Seniors, the League of Women Voters of California, and the Association to Aid Victims of Domestic Violence strongly urge a YES vote on Proposition 46.

Importantly, this bond measure will be funded out of existing state resources without raising taxes.

In our communities, the problems of housing affordability, homelessness, and domestic violence have gotten progressively worse. According to the State Department of Housing, over 360,000 Californians are homeless and the numbers are rising.

Last year, 23,000 women and children were turned away from domestic violence shelters because they were full. Housing affordability for working families in California is at historic lows.

Safe shelter is fundamental to a decent life. YES on Proposition 46 will:

- Double the number of emergency shelter beds.
- Expand the number of shelter beds for battered women.
- Provide security improvements and repairs to existing shelters.
- Provide clean and safe housing for senior citizens and low-income families.

Additionally, Proposition 46 provides affordable housing for working people, accessibility improvements to apartments for disabled Californians, and loan assistance for military veterans, teachers, police and firefighters.

Proposition 46 also creates 276,000 jobs and helps improve the state's economy.

Allows Seniors to Live Independently: "This measure allows seniors to live in an apartment or home without the fear of being institutionalized in a nursing home. We strongly urge a YES on 46."—Congress of California Seniors

Helps Battered Women: "Most cities in California don't have adequate shelters for women and children who have been beaten and abused. Proposition 46 begins to fix this bad situation."—Statewide California Coalition for Battered Women and California State Sheriffs Association

Keeps Kids in School: "Proposition 46 provides shelter for thousands of homeless children, allowing them to attend neighborhood schools without having to worry about a roof over their head."—California Teachers Association

Independent Audits and Accountability: "This measure requires independent audits and contains strict accountability provisions to ensure the funds are used as promised. Every city and county will be eligible to receive housing funds."—California Chamber of Commerce

Loan Assistance for Veterans: "Our veterans have protected American interests at home and around the world. This measure makes available low-interest loans so they can purchase their first home."—Vietnam Veterans of California, Inc.

Critical Need For Housing and Emergency Shelters: "Proposition 46 provides shelter for those who need help the most—battered women, homeless mothers with children and disabled seniors."—Habitat For Humanity, Orange County

Yes on 46 provides emergency shelter and housing relief without raising taxes. It will help the 23,000 women and children turned away from domestic violence centers because they were full. It requires independent audits to ensure the funds are spent correctly. We urge you to vote YES on Proposition 46. Visit our website prop46yes.org.

PETE MAJOR, *Executive Director*

Habitat For Humanity, Orange County

BARBARA INATSUGU, *President*

League of Women Voters of California

DR. KATHIE MATHIS, *Executive Director*

Association to Aid Victims of Domestic Violence

REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 46

- Supporters say the interest—hundreds of millions of dollars annually—for this bond can be paid out of existing resources. WHAT EXISTING RESOURCES? California faces multi-billion dollar deficits as far as the eye can see. The reality is, we are going to have to cut programs or raise taxes, or both, to pay back this bond.
- Supporters claim this bond will support battered women's shelters. But there is NO GUARANTEE that passing this bond will provide ONE SINGLE BED for a battered woman or her child. There's no mention of battered women's shelters in this bond, IT IS SIMPLY A POLITICAL PLOY. Those shelters will have to compete with everyone else in the same bureaucratic process!
- Supporters also say this bond will help provide affordable housing. But areas with the most critical housing shortages in our state—places like suburbs of Los Angeles, San Diego, and the Bay Area—

won't qualify for these monies because the bond is written to favor urban downtowns.

Proposition 46 is a classic government boondoggle. Higher fees, taxes, and strict regulations have made housing unaffordable in California. Now the same folks who created the problem want you to let them "solve" it, using YOUR TAX DOLLARS!

It is time for us to attack the real problem, not just to subsidize a failing, costly system.

Proposition 46 is no solution. We encourage you to vote NO.

MARILEE MONAGAN, *Past Board Member*

Women Escaping a Violent Environment (WEAVE)

LEW UHLER, *President*

National Tax Limitation Committee

ARGUMENT AGAINST PROPOSITION 46

What do families, major corporations and governments have in common? They all collapse when they have too much debt. California is already on the brink of bankruptcy and now is not the time to be going further into debt.

Passing bonds only adds to the state's debts. Here is a snapshot of California's current situation:

- A \$24 billion budget deficit this year.
- \$26.9 billion in current general obligation bonds outstanding.
- \$11 billion in energy bonds that have yet to be sold.
- A \$13 billion school bond on this ballot.

In the past two years, California has borrowed or approved more than \$12.9 billion in 27 different bonds. Paying it back, however, will cost you a whole lot more.

Bonds are the government's equivalent of a high-interest credit card. Government borrows money and then taxpayers pay back that debt, meaning increased taxes, rates and fees. Even worse, your children will be paying off this bond long after the money has been spent.

With every pile of debt California takes on, our credit rating drops, and our interest rates go up—forcing you to pay even more for government's mistakes and whims.

So why is this particular housing bond not a good idea?

Unfortunately it does little to truly address housing issues in California.

This bond has a \$2.1 billion face value. It will cost you at least \$3.5 billion to pay it off. Of this \$2.1 billion, only \$290 million, about 15%, is put into the "Self-Help" fund that is supposed to help low-income, first-time homebuyers with down payments, supposedly a major selling point for this bond. Of that, only \$12.5 million is actually going to be used

to help with down payments. To make matters worse, to get a part of the \$12.5 million (one half of one percent of the bond) first-time homebuyers have to purchase their houses in government approved locations. None of these areas are the high-income areas where it is so hard to purchase a home. This program only applies to major urban centers and many of the least desirable places to live and raise children. So—the very small piece of this bond that is supposed to help you buy a house has so many strings that you will probably never qualify.

If we want to improve housing availability in California, we first need to make it easier to construct new homes. We need to reduce the red tape that homebuilders have to go through to build new housing and make it easier to build condominiums. This bond does NOTHING to address the barriers that exist to providing affordable, abundant housing in California.

Sacramento politicians hope you will overlook their fiscal mismanagement and allow California to go further into debt without forcing them to confront the true reasons we do not have adequate housing. Do not allow this. Vote no and force Sacramento to set priorities and address this crisis in a responsible way.

SENATOR RAY HAYNES, *Chair*

State Senate Constitutional Amendments Committee

ASSEMBLYMAN ANTHONY PESCE, *Vice-Chair*

Assembly Utilities and Commerce Committee

JON COUPAL, *President*

Howard Jarvis Taxpayers Association

REBUTTAL TO ARGUMENT AGAINST PROPOSITION 46

Our opponents want you to believe that the solution to our emergency shelter and affordable housing problem for seniors, low-income families and battered women is to ignore the problem while the cost and consequences get even more severe.

Let's set the record straight: Proposition 46 will NOT require a tax increase and will be paid for by existing state funds. Additionally, taxpayers are protected by independent audits to ensure that the programs are carried out as promised.

The emergency shelter and affordable housing problems are getting worse.

"Last year, 23,000 women and children were turned away from domestic violence centers due to inadequate space. More and more senior citizens are homeless or forced into nursing homes, because they cannot afford rent increases. Our homeless shelters are overflowing and most don't have special facilities for families with children."—Dallas Jones, Director, California Office of Emergency Services

We represent a broad cross section of Californians who believe that Proposition 46 is a prudent and measured response to an emergency shelter and affordable housing situation that is in crisis.

That is why Proposition 46 is endorsed by these diverse groups:

- AARP
- California State Sheriffs Association
- California Chamber of Commerce
- League of Women Voters of California
- Statewide California Coalition for Battered Women
- California Nurses Association
- California Teachers Association
- California Professional Firefighters
- Congress of California Seniors

Proposition 46 provides shelter for our most vulnerable Californians: the elderly, disabled, homeless families, battered women and children. Please vote YES on 46.

TOM PORTER, *State Director*

AARP

PETE MAJOR, *Executive Director*

Habitat For Humanity, Orange County

DAN TERRY, *President*

California Professional Firefighters