



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



6

March 3, 1987

Law & Legislative Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Agency Position on State Legislative Issues

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the City Council of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolutions approving the Agency's position regarding the legislation and authorizing submittal of a letter to the State of California.

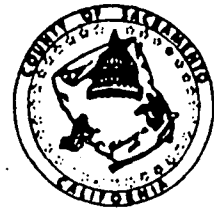
Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

Attachment



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



February 18, 1987

City Council of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: State Legislative Policy Issues

SUMMARY

This report presents major state legislative topics of interest to the Agency including current legislation to be developed. The following is a summary of topics covered and recommended position statements:

State Redevelopment Law

- State legislation should not restrict local flexibility.
- The State should not cancel special supplemental subvention payments required by Section 16111 of the Government Code.

State Funding for Low Income Housing

- Increased State funding is needed.

Tax Credits for Low Income Housing

- Allocation rules should provide maximum local flexibility.
- A State housing tax credit should be established.

Allocation Rules for Tax Exempt Bond Authority

- Allocation rules should provide maximum local flexibility.
- There should be a local set aside of at least \$40 per capita in metropolitan areas.

All Districts

(1)

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Housing Support Services for the Frail Elderly

- State funding should be provided for community-based long term care.

Local Coordination of State Office Leasing Activities

- State office location decisions should be coordinated with local government.

Enterprise Zones

- Requirements should be streamlined and liberalized.
- Funding for local administration should be provided.

The Homeless

- Increased State funding is needed.

Adoption of a resolution approving the legislative positions stated in this report is recommended.

BACKGROUND

The purpose of this report is to provide an overview of important State legislative issues. Attachment A is a discussion of major topics of interest to the Agency together with recommended position statements for each. Materials are organized in the following subject areas:

- State Redevelopment Law
- State Funding for Low Income Housing
- Tax Credits for Low Income Housing
- Allocation Rules for Tax Exempt Bond Authority
- Housing Support Services for the Frail Elderly
- Local Coordination of State Office Leasing Activities
- Enterprise Zones
- The Homeless

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The position statements are reproduced in the "Recommendations" Section of this report. They are intended to provide the basis for the Agency's support or opposition to specific pieces of legislation.

Attachment B is a summary listing of current legislative developments as of February 25, 1987. As the legislative session progresses, staff will be screening and evaluating bills based on these position statements and taking appropriate action. Future reports will contain a rundown of the status of these and other related bills, actions taken and recommendations for further action.

FINANCIAL DATA

The policy recommendations contained in this report will have no direct impact on Agency programs or funding. However the Governor's plan to eliminate special supplemental subvention payments as explained in the "State Redevelopment Law" section of this report would result in a loss of \$101,000 to the Agency in 1987.

ENVIRONMENTAL DATA

Environmental review of actions proposed by this report is not required.

POLICY IMPLICATIONS

The actions proposed in this staff report are consistent with previously approved policy and there are no policy changes being recommended.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of March 2, 1987, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Glud, Moose, Pettit, Sanchez, Sheldon, Simon,
Simpson, Wiggins, Wooley, Yew, Amundson
NOES: None
ABSENT: None

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RECOMMENDATIONS

A capsule summary of the legislative recommendations presented in Attachment A of this report appears below.

State Redevelopment Law: The legislature should not enact legislation which reduces local redevelopment program flexibility or funding. This specifically includes a current plan by the Administration to eliminate more than \$101,000 in special supplemental subvention payments to the Agency as required by section 16111 of the Government Code.

State Funding for Housing Development: State funding for housing production should be increased to at least the level approved by the legislature in 1986 (i.e., \$37 million). State programs should also give a funding priority to local government.

Tax Credits for Low Income Housing: State rules governing the allocation of federal housing tax credits should provide maximum local flexibility. Also the state should undertake a research and development effort, involving a companion state credit and grants to local government, to fully test the feasibility of tax credits as a local housing policy option.

State Allocation Rules for Tax Exempt Bond Authority: State tax exempt bond allocation rules should provide maximum local flexibility. Such rules, at a minimum, should provide for a set aside in metropolitan areas of at least \$40 per capita valid for a minimum of six months, and the flexibility to carry forward bond commitments for the maximum time permitted by federal law.

Housing Support Services for the Frail Elderly: State funding should be used to provide community-based long term care for the frail elderly and other functionally impaired adults.

Local Coordination of State Office Leasing Activities: State decisions to construct or lease office space should take local government planning considerations into account to the maximum extent possible.

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Enterprise Zones: State enterprise zone requirements should be streamlined and liberalized to facilitate participation by the private sector. Also local governments should receive funding for administration.

The Homeless: State financial support for housing and related support programs for the homeless, including job training, etc., should be increased.

Approval of the attached resolution approving the above legislative positions and authorizing the Executive Director to communicate them to the State is recommended.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER SLIPE
City Manager

Contact Person: Leo Goto, 440-1320

RESOLUTION No.

Adopted by The Sacramento City Council on date of

March 1987

POSITION STATEMENT REGARDING STATE HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION

WHEREAS, State and local governments share many common housing and community development goals and objectives; and

WHEREAS, close coordination between State and local government is essential for efficient and effective program administration; and

WHEREAS, state laws, regulations and, with increasing importance, funding constitute significant opportunities and constraints for local housing and community development activities; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Section 1 The following formal positions with respect to state legislation and regulation are hereby adopted:

- a. State Redevelopment Law: The legislature should not enact legislation which reduces local redevelopment program flexibility or funding, specifically including any proposal to eliminate special supplemental subvention payments required by Section 16111 of the Government Code.
- b. State Funding for Housing Development: State funding for housing production should be increased to at least the level approved by the legislature in 1986 which was \$37 million. State programs should give a funding priority to local government.

- c. Tax Credits for Low Income Housing: State tax credit allocation rules should provide maximum flexibility to government. The state should undertake a research and development effort, involving a state tax credit and grants to local government, to test the feasibility of tax credits as a local housing policy tool.
- d. State Allocation Rules for Tax Exempt Bond Authority: State allocation rules for tax exempt bond authority should provide maximum local government flexibility. Such rules should provide a set aside in metropolitan areas of at least \$40 per capita valid for a minimum of six months, and the flexibility to carry forward bond commitments for the maximum time permitted by federal law.
- e. Housing Support Services for the Frail Elderly: State funding should be used to provide community-based long term care for the frail elderly and other functionally impaired adults.
- f. Local Coordination of State Office Leasing Activities: State decisions regarding the lease of office space should take local government planning considerations into account to the greatest extent possible.
- g. Enterprise Zones: State enterprise zone requirements should be streamlined and liberalized to facilitate participation by the private sector. Local governments should receive funding for administration of such enterprise zones.
- h. The Homeless: State financial support for housing and related support programs for the homeless, including job training, should be increased.

Section 2 The Executive Director is authorized to communicate the above positions to State elected and appointed officials through appropriate means.

Section 3 This resolution shall take effect immediately.

MAYOR

ATTEST:

CITY CLERK

0772L

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ATTACHMENT A

This section presents both position statements and related background information on State legislative topics of interest to the Agency. The position statements alone are summarized in the "Recommendations" section of this report. Attachment B is a summary listing of current legislative developments as of February 25, 1987.

TOPIC: State Redevelopment Law

RECOMMENDED POSITION: The state should not enact legislation which reduces local government flexibility or funding for redevelopment. In addition to measures that would result in a direct loss of funding, others to be opposed include those which would impose additional overly stringent record keeping and reporting requirements on redevelopment agencies and state requirements to use redevelopment funds for specific purposes; even highly desirable purposes such as housing the homeless.

DISCUSSION: State redevelopment law provides a means whereby local government can undertake physical development projects in cooperation with the private sector. The funding mechanism provided is called tax increment financing. Here the extra increment of property taxes resulting from new development in a targeted area is pledged directly to the payment of bonded debt and other costs associated with redevelopment. With few exceptions the property tax base for underlying governmental jurisdictions is frozen at pre-redevelopment levels.

With other sources of funding drying up, other jurisdictions have increasingly looked to tax increments as a funding source for new or expanded programs. This has resulted in legislative attempts to restrict local redevelopment flexibility; for example by creating burdensome administrative reporting requirements or by requiring that a portion of tax increments be devoted to a particular use.

In Sacramento there is a high degree of coordination between various units of local government and the private sector on redevelopment priorities and financing. The flexibility exists to direct scarce resources to areas of highest need. Recent examples include gap funding for transit and housing programs for the homeless. In such a cooperative environment the imposition of legislative curbs on redevelopment would be a significant constraint on local flexibility. Therefore any legislation which would impose additional reporting or use requirements on redevelopment agencies should be opposed.

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Another threat to redevelopment in California is the Deukmejian Administration's proposal to abandon their 1984 commitment to hold redevelopment agencies harmless from the elimination of the business inventory tax replacement subvention. In 1984, SB 794 (Marks) and AB 1849 (Cortese) were enacted to provide long-term stability in fiscal responsibilities between the state and local governments. This legislation was termed a "New Partnership" for the financing of state and local programs and reduced local agency dependency upon the State created after Proposition 13. Major changes included repeal of the AB 8 Deflator, elimination of the business inventory tax subvention, distribution of the revenues from the supplemental property tax to cities, counties, special district and community colleges, and the creation of Special Supplemental Subventions. These new supplemental subventions have provided funds to cities, multi-county special districts, and redevelopment agencies when such local agencies experienced a revenue loss due to the repeal of the business inventory tax subvention.

Faced with a funding shortfall in the current fiscal year, the Deukmejian Administration is expected to introduce urgency legislation to eliminate special supplemental subvention payments for February 28, 1987 and June 30, 1987. According to the State Controller, the elimination of these two payments will amount to a loss of at least \$101,258.00 to this Agency. These funds have already been incorporated into our budget. As you are well aware, there are no replacements. This proposal is being strongly opposed by the California Redevelopment Agency's Association, the League of California Cities, and others. Agency staff is working with these groups to defeat this measure.

TOPIC: State Funding For Housing Development

RECOMMENDED POSITION: The State should increase the funding for housing production to at least the level approved by the legislature in 1986 (i.e., \$37 million). State programs should include a funding priority for local government which, after all, has primary responsibility for providing low income housing under state law.

DISCUSSION: Cutbacks in federal housing and community development expenditures place increased pressures on state and local government to produce substitute programs and funding. According to the National Association of Housing and Redevelopment Officials (NAHRO) new budget authority for housing and urban development has been reduced by about two-thirds in this decade, falling from a high of \$33.3 billion in 1981 to approximately \$11.0 billion today. At SHRA we have experienced a more than one-third reduction in direct funding for continuing

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programs since 1985 plus a drastic reduction in the supply of new low income housing units.

The principal funding source for state low income housing programs was to be the California Housing Trust Fund created in 1985 by SB 478 (Petris) and funded through a formula allocation of tidelands oil revenues. The initial allocation was \$20.0 million. Expectations were that this annual contribution could be sustained if not increased. However due to a drop in oil prices, which drastically reduced tidelands revenues, and conflicting state budget priorities this has not been the case. In 1986 the Governor approved only \$9.0 million for low income housing programs statewide. This was roughly one quarter of the amount approved by the Legislature. A breakdown of the Governor's vs. the Legislature's proposals follows:

1987 Local Housing Assistance (in thousands)

	<u>Governor</u>	<u>Legislature</u>
Rental Housing Construction		\$10,000
Emergency Shelter	\$4,000	10,000
Housing Rehabilitation	2,500	8,000
Self-help Housing	2,000	2,000
Senior Shared Housing	500	500
Rural Rental Assistance		1,500
Migrant Housing		5,000
	<u>\$9,000</u>	<u>\$37,000</u>

Looking to next year and beyond it will be increasingly important for the state to provide additional funding for low income housing as traditional funding sources continue to decline. By all indications, standard market rate housing is becoming increasingly unaffordable even for working families. Local government alone simply does not have access to the resources necessary to bridge this affordability gap.

TOPIC: Tax Credits for Low Income Housing

RECOMMENDED POSITION: State rules governing the allocation of federal housing tax credits should provide maximum flexibility for local programs consistent with the goal of full credit utilization state-wide. The state should undertake a major research and development effort to test the feasibility of tax credits as a local housing policy option. Such an effort should include both a complementary state tax credit, to encourage participation by the private sector, and a pilot program of grants to local jurisdictions to explore innovative means to use credits as a stimulus for private investment in housing.

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DISCUSSION: The new federal tax law provides tax credits for low income housing as a substitute for real estate tax shelters. For new construction and substantial rehabilitation the credit amounts to approximately 9% of the eligible basis of a property each year for ten years. For other projects, including those financed with tax exempt bonds, the credit is approximately 4% annually. After 1987 the exact percentage will be established monthly by the U.S. Treasury to yield a present value of 70% of qualified new construction or substantial rehabilitation costs and 30% of qualified acquisition costs. To qualify for a federal credit a certain percentage of units in a project must be rented to low income families at affordable rents for a minimum of 15 years.

The presence of the tax credit creates two avenues for action at the state level. One is development of credit allocation rules favorable to local interests. The other is establishment of a state housing tax credit to complement the federal credit. Both are further discussed below.

Local control of housing tax credit allocations:

Federal law provides that an amount equal to \$1.25 per capita may be allocated to certain projects according to rules established by each state. This so-called free standing credit is separate and independent from a 4% tax credit provided for projects financed with tax exempt bonds. The total free standing credit amount available state-wide in 1987 is approximately \$30.0 million of which roughly \$1.1 million is attributable to Sacramento's population.

SB 113 introduced by Senator Leroy Greene would establish a state process for allocation of low income rental housing tax credits. The bill simply provides that tax credit allocation authority would be vested in the Mortgage Bond Allocation Committee which is currently responsible for approving tax exempt housing bonds. The Committee would be renamed the Mortgage Bond and Tax Credit Allocation Committee and would establish allocation rules as it saw fit. The bill has been introduced as an emergency measure. Quick passage would provide more time to fully utilize this year's federal credit allocation. Although there is no specific priority for locally sponsored projects, the bill should be supported on grounds of expediency if for no other reason.

Regardless of whether it is established by legislation or administratively, the state allocation process should have the following general characteristics. Allocation authority would be initially vested in local government based on population size. After a certain time any unused credit authority would revert to state control for reallocation on a "first come, first served"

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basis. Staff will be working to have these features incorporated into the allocation process.

The advantages of a complementary state credit for lower income housing:

While the principle is sound, the effectiveness of the new tax credit in attracting needed investment to lower income housing has yet to be proven. Due to the numerous uncertainties, many doubt that federal credit authority will be fully utilized in 1987, if ever. In view of the continuing need for low income housing and the erosion of federal subsidies, with no realistic hope for an increase in the foreseeable future, tax credits are likely to become increasingly important over time by default, if for no other reason. This being the case it would be worthwhile for the state to undertake an upfront investment to fully test their feasibility as a subsidy mechanism.

A state housing tax credit would have at least three distinct advantages over direct subsidies as a means for encouraging needed housing development. First there would be virtually no additional state or local administrative cost compared with that required for the federal credits. Second, a state credit would not restrict local flexibility in structuring programs to meet specific needs and would increase local leverage in attracting outside (i.e., private) resources. Finally, credits would not crowd out limited tax exempt bond authority nor be subject to the Gann expenditure limit. These features make them particularly attractive from a local viewpoint.

SB 125 by Senator Leroy Greene would establish a state tax credit for low income rental housing. The proposed state credit is identical to the federal credit in every respect except a property would have to continue to meet credit eligibility requirements for 30 years rather than 15 years. Also, the maximum credit amount has not yet been specified. SB 125 deserves support. However, from an administrative and practical standpoint it would be advisable to eliminate any distinctions between the federal and state credits. This would allow substitutions of federal credits in certain projects, thereby helping to assure full utilization of federal credit authority.

TOPIC: State Allocation Rules for Tax Exempt Bond Authority

RECOMMENDED POSITION: State tax exempt bond allocation rules should provide maximum flexibility to local government consistent with the goal of full utilization of available bond authority state-wide. Allocation rules at a minimum should provide a local set aside in metropolitan areas of at least \$40 per capita valid for a minimum of six months. After this time any unused

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authority would revert to the state for allocation on a "first come, first served" basis. The allocation rules should also allow issuers to carry forward bond commitments for the maximum time permitted by federal law.

DISCUSSION: The 1986 federal tax act established a \$75 per capita annual limit on the sale of certain types of tax exempt bonds through the year 1987, after which the limit will be \$50 per capita. Issues subject to the cap include bonds for mass transit, community facilities, privately owned solid waste facilities, sewage facilities, municipally owned electric and gas facilities, residential rental properties, single family homeownership, small issue industrial development bonds, student loan bonds, redevelopment and government bonds exceeding \$15 million issued for private purposes. Based on recent experience, the cap will limit total bond volume in covered categories by more than two-thirds. Competition between governments for scarce bond authority is therefore likely to increase.

In October 1986 the Governor issued a proclamation regarding how the state's bond authority was to be allocated. It's major characteristics can be summarized as follows: There is no set-aside for any category of bonds or for state versus local issuers. Allocation will be awarded on a first come, first serve basis. Applications will only be accepted from cities and counties, joint power authorities, special districts, state agencies, and non-profits. In the case of housing bonds, the local issuer must post a fee of .5% for single family or 1% for multifamily bond issues. The issuer can ask for up to \$40 million (if the population for the jurisdiction is over 500,000). Once an allocation is granted, the issuer has 60 days to sell the bonds. If the bonds are not issued in this time, the fee and the right to issue bonds is foregone. In the case of non-housing bonds, applications for an allocation can be for any amount but must be project specific. The committee will look to the public purpose achieved by the project in reviewing the allocation. In general, a city or county will not be granted more than one allocation at any one time. Allocations are granted only for 60 days, although 30 day extensions are possible.

The above process is contrary to local interests in many respects, most notably the following:

- There is very little local flexibility for project planning.
- Time constraints for issuance are unnecessarily restrictive.
- Ultimate decisionmaking authority rests with the state rather than local government.

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Staff is working with the California League of Cities and the California Redevelopment Agencies Association to achieve rule changes more favorable to local interests.

SB 114, introduced by Senator Leroy Greene, would replace the Governor's Proclamation. The bill conforms to the technical requirements of federal law, but does not address the substantive policy issues outlined above. The Agency therefore should not take a position on this bill at this time.

TOPIC: Housing Support Services for the Frail Elderly

RECOMMENDED POSITION: The state should provide funding for community-based long term care for the frail elderly and other functionally impaired adults. This would enable them to remain in their own homes longer, rather than relocate to more costly institutions.

DISCUSSION: In addition to increasing the overall supply of affordable housing, there is also a need to explore means to link housing and social support services for the low income frail elderly and other handicapped adults. This would allow them to live independently in their own homes for a longer period, thus reducing the duration and cost of institutional care. We are beginning to see such a linkage in market rate housing developments for seniors. There is an equal if not greater need among low income households who cannot afford such housing. Unfortunately, there is no mechanism to provide it.

Last year, Assemblyman Lloyd Connelly authored a bill to provide social support services to the frail elderly on a trial basis through a pilot program in four jurisdictions including Sacramento. The bill died due to funding constraints. This year, Assemblyman Connelly will be serving as Chairman of the Assembly Committee on Aging and Long Term Care. This subject is also receiving increasing attention at the national level. No doubt there will be more activity this year.

TOPIC: Local Coordination of State Office Leasing Activities

RECOMMENDED POSITION: State decisions to construct or lease office space should take local government planning considerations into account to the maximum extent possible. In downtown Sacramento priority consideration should be given to locating in the Central Business District incentive zone.

DISCUSSION: The City and the Redevelopment Agency of Sacramento have recently completed an eight month study on urban

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design/development issues impacting the physical and economic health of the downtown Central Business District.

As a part of the Urban Design Study, an economic analysis showed that the Central Business District's share of the office market has decreased from 31 percent of the metropolitan area supply in 1980 to 26 percent in 1985; the Central Business District's office vacancy rate has increased from one percent to 16 percent in the same period. Obviously, this decrease has a significant negative impact on both the City and the State Capitol complex, located as it is, adjacent to the Central Business District.

Office employees play a significant role in the revitalization of the Central Business District by providing the basic economic support to retail activities. Concentrating the downtown's share of the office market into a smaller area rather than disbursing it throughout the Central City is the key to creating the urban vitality envisioned by the community. This strategy also has the positive effect of facilitating public transit by concentrating high density offices in close proximity to the new light rail system.

The Central Business District (C-3) zone has been designated as an area to develop two million square feet of new office development over the next five years. It consists of a seventy (70) block area bounded approximately by H, L, 3rd and 16th Streets. In order to achieve the critical employee base necessary to support economic vitality in the downtown Central Business District, the State and City should work together to adopt policies that make State office leasing within the Incentive Zone a priority.

TOPIC: Enterprise Zones

RECOMMENDED POSITION: State enterprise zone requirements should be streamlined and liberalized to facilitate participation by the private sector. Local governments should receive state funding for enterprise zone administration.

DISCUSSION: Sacramento received designation for an Employment and Economic Incentive Act area under AB-514 for the Del Paso Heights/Northgate-Norwood area. Designation has strengthened Sacramento's ability to market itself as a pro-business area. We recently applied for the addition of two areas--Downtown/Richards Boulevard and Oak Park/Florin-Perkins. Two new areas will increase the employment base in the Enterprise Zone program and increase our ability to tie job creation to the hiring of disadvantaged residents.

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The State has made some changes in the Enterprise Zone program regulations and tax benefits, but the regulations under AB 514 (Waters) still make it difficult for businesses to qualify for any of the Enterprise Zone benefits since each company must hire at least 30% of its employees from a High Density Unemployment Area (HDUA). In Sacramento the designated HDUA's are Del Paso Heights, Oak Park and Downtown. Many businesses feel that the tax incentives do not outweigh the costs of recruiting, training and supervising employees hired from blighted areas. We should support changes in the qualification requirements and wage tax credits to overcome these problems. Also, in order to effectively administer this program and provide an effective job employee hiring component in the face of dwindling community Development Block Grant funds, local governments need state financial assistance for local Enterprise Zone administration.

TOPIC: The Homeless

RECOMMENDED POSITION: State funding for housing and related support programs for the homeless should be increased. This specifically includes local programs designed to break the cycle of homelessness through, for example, counseling, education, and training.

DISCUSSION: Many homeless persons have been unemployed for an extended period of time. Contributing factors are functional illiteracy, insufficient work and social skills, the emotional trauma of homelessness, etc. Homelessness tends to create its own "mind set", attitude, and identity. To break this cycle, specific employment training programs for the homeless should be developed.

The Agency's J.O.B. (Just One Break) program has attempted to accomplish this task. Under the program, staff locates employers, screens shelter residents, and matches employers with potential employees. However, funding has been minimal and staff time available for program development has been limited. Even with these constraints, 75 people received employment during the first two months of this fiscal year. Last year, from July 1st through December 31st, 150 people obtained either permanent part time or permanent full time employment. Also 3,000 hours of casual labor was provided by residents of our homeless shelters.

The State Employment Development Department in Sacramento has been cooperative yet they have received no additional funding or other support for this program. The Sacramento Metropolitan Chamber of Commerce and the Downtown Association as well have been supportive of J.O.B. We have made preliminary contact with the State Senate Committee On Housing and Urban Affairs, regarding the possibility of establishing a state funded pilot

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program along the lines of J.O.B. Senator Leroy Greene is
positively considering this as a legislative proposal for 1987.

