



January 3, 2022

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional Housing Affordability and Financial Accountability Act of 2022 initiative (A.G. File No. 21-0040, Amendment #1).

Background

Housing in California. Today, an average California home costs 2.3 times the national average. Federal, state, and local governments fund and implement a variety of programs aimed at directly helping Californians, particularly low-income Californians, afford housing. These programs generally work in one of three ways: (1) increasing the supply of moderately priced housing, (2) paying a portion of households' rent costs, or (3) limiting the prices and rents property owners may charge for housing.

Local Government Bonds. Local governments can issue bonds to pay for capital projects, such as bridges, schools, hospitals, affordable housing, water treatment facilities, and other public buildings. Although local governments can pay for capital projects with current revenues, borrowing allows them to spread the costs across many years, which often reflects the longer usage of the projects. Communities pay for the cost of construction and borrowing through higher taxes, fares, and other charges that help service the debts.

Property Taxes. The California Constitution limits property taxes to 1 percent of the value of property. Property taxes may only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978, (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978, or (3) school facilities bonds approved by 55 percent of the voters in local elections.

Proposal

Changes the Voting Requirement for Local Affordable Housing Bonds. This measure allows (1) affordable housing bond measures to be approved by a majority (rather than two-thirds) of the voters in local elections and (2) property taxes to exceed the current 1 percent limit in order to repay those bonds.

This majority vote requirement would apply only if the local bond measure presented to the voters includes:

- A requirement that the bond funds can be used only for specified purposes related to affordable housing. Eligible purposes include rehabilitation, renovation, construction, furnishing, or equipping of affordable housing; operation and maintenance of affordable housing; rental assistance; and homelessness-prevention services.
- A specific list of the types of housing projects or other eligible uses to be funded and certification that the local government has assessed local housing needs in developing the list.
- A requirement that the local government conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the purposes listed in the measure.

The provisions of this measure apply to local affordable housing bond measures submitted to voters at the same election as this measure, as well as any subsequent election.

Fiscal Effects

Local Government Impact. This measure would make it easier for certain local government bonds to be approved by local voters. For example, between 2018 and 2020, affordable housing bond measures totaling \$785 million received the necessary two-thirds voter approval. During the same period, over \$1.6 billion of proposed bonds received over 50 percent but less than two-thirds voter approval and therefore were not approved. Under the measure, local governments approving bond measures that otherwise would not have been approved would have increased debt costs to pay off the bonds. The cost to any particular local government would depend primarily on the size of the bond issue.

State Impact. The measure's impact on state costs is uncertain. In the near term, the demand for state funding for affordable housing programs would not likely change. In the longer run, the measure could have a more significant fiscal impact on the state. For instance, if local governments assume greater funding responsibility for affordable housing, the state's costs could decline over time. The actual impact on state costs ultimately would depend on voters' decisions on local bond measures and the state's assessment of continued need for state resources related to housing affordability.

Summary of Fiscal Effects. We estimate that this measure would have the following major fiscal effect:

- Increased debt costs for local governments, depending on local voter approval of future affordable housing bond issues. These costs would vary by individual cities and counties.

Sincerely,

Gabriel Petek
Legislative Analyst

Keely Martin Bosler
Director of Finance