CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT
City Hall Annex - Inman & Broadway - Cambridge, Mass. 02139

498-9034

M E M O R A N D U M

TO: Robert W. Healy
City Manager

FROM: Michael H. Rosenberg, Assistant City
Manager for Community Development

SUBJECT: Awaiting Report #7/Bonding Feasibility

DATE: September 29, 1988

This memorandum is in response to a Council Order requesting information about the feasibility of the Cambridge Housing Authority issuing bonds to develop low cost housing.

Local housing authorities may issue two types of bonds: taxable, and tax-exempt. The tax-exempt bonds have a lower interest rate because the investors who buy the bonds do not pay federal tax on their interest.

Although the Cambridge Housing Authority could, theoretically, issue taxable bonds, it would not be practical to do so as the higher interest rate, and high transaction costs, would make other conventional financing (such as bank loans) more attractive.

Tax-exempt bonds can also be used to raise funds for housing. In Massachusetts, all tax exempt debt must be approved by the Commonwealth's Executive Office for Administration and Finance. EOAF has delegated authority to allocate bonding capacity for housing to the Executive Office of Communities and Development, which distributes it through its Rental Production Programs and the TELLER Program. All tax-exempt bonding capacity is allocated in this way, and authorities such as the CHA may not issue bonds independently. I have described EOCD's two programs below:

Rental Production Programs: The Commonwealth offers three production programs for low income housing: Chapter 705 for family housing, Chapter 667 for elderly housing, and Chapter 689 for housing for people with disabilities. Under these programs, the Commonwealth raises funds by issuing general obligation bonds, and uses these funds to make capital grants to local housing authorities.

TELLER: Under the Tax Exempt Local Loans to Encourage Rental Housing (TELLER) program, a local housing authority (or any private developer, in cooperation with a housing authority) can issue tax exempt bonds to develop mixed income housing. The sponsoring agency must apply for authority to issue bonds for a specific project. The project must meet TELLER guidelines, and potential projects compete statewide for TELLER funds. As tax exempt financing does not provide a deep enough subsidy to make most projects feasible, virtually every TELLER project requires an additional subsidy. In addition, because of the high transaction costs involved in issuing bonds, TELLER is only feasible for larger scale projects.

The Council order also refers to bonds issued by the City of San Fransisco. The San Fransisco Redevelopment Agency did issue tax exempt housing bonds prior to new federal rules capping the tax exempt debt issued by all states. As in Massachusetts, San Fransisco can continue to issue tax exempt bonds bonds directly, if they are authorized by California's Debt Allocation Committee.

CM:SS:MHR:nb

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CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

October 17, 1988

To the Honorable, the City Council:

With respect to Awaiting Report Item No. 7, relative to the feasibility of the Cambridge Housing Authority issuing bonds to develop low-cost housing, enclosed please find copy of a report from Michael H. Rosenberg, Assistant City Manager for Community Development,

Very truly yours,

Robert W. Healy
City Manager

RWH/mbf
Enc.

Agenda Item No. 3 S-595

Re: response to Awaiting Report Item 7 on the feasibility of the CHA issuing bonds to develop low-cost housing.

In City Council,

October 17, 1988

10-17-88

Referred Back to City Mgr. For further Rept. after Consultation with the CHA.

Copy sent to the City Manager 10/19/88 mk