# CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

Tel. 498-9030

FINANCE - REVENUE

**DATE:** September 20, 1990

**TO:** Robert Healy, City Manager

**FROM:** James Maloney, Finance Director

**SUBJECT:** Awaiting Report Item #1

I have been asked to respond to Awaiting Report Item #1, concerning the issuance of municipal bonds for the purpose of developing low cost housing, as has been done in the City of San Fransisco, California. While the original order spoke of the Cambridge Housing Authority issuing municipal bonds, the San Fransisco model referred to has the City issue the municipal bonds, because the municipality can obtain tax exempt financing at a more advantageous rate than the Housing Authority. Because that would be the case here, this response examines the feasibility of the City of Cambridge issuing tax exempt bonds in conjunction with the Housing Authority.

There are two factors to examine when reviewing the ability or feasibility of the issuance of tax exempt municipal bonds for housing, first the legal restrictions, and secondly, the impact upon the City's finances.

## THE LEGAL ISSUES:

Under Massachusetts General Laws, the City may borrow to finance costs associated with the development, acquisition, and operation of low rent housing projects, defined to include the construction or rehabilitation of buildings to provide housing accomodations for families and persons whose net annual income is less than the amount necessary to enable them to maintain decent, safe and sanitary housing. Only housing for low income families may be financed under existing General Laws. However, I have been informed by legal counsel that under Amendment 89 of the constitution of the Commonwealth, the City may petition the legislature for special legislation authorizing the City to issue either general obligation or revenue bonds to finance housing for low and moderate income families. The provision of such housing has been held under Massachusetts case law to serve a public purpose as regarded by the Constitution. For such legislation to be found constitutional, tight standards and principles regarding eligibility would have to be established.

In the words of legal counsel, because of the Constitutional issues involved, the standards would have to be particularly strict if municipal bonds or any other type of municipal taxes are involved. The above scenario assumes that the City would hold title to the property.

There is also a possibility under Federal Tax Laws for the City to issue revenue bonds (also requiring state legislative approval) to issue revenue bonds to be used in conjunction with a private owner operator to develop low income housing. If such a plan were to be developed, a host of complex and highly restrictive regulations would have to be followed for the plan to be deemed public purpose. While it may be possible to structure such an arrangement, the Internal revenue Service (IRS) generally views such arrangements as "private activity bonds" and thus taxable, eliminating any financial benefit of such a plan.

It should also be noted that under the General Laws, the Housing Authority may issue revenue bonds for the purpose of providing low and moderate income housing. However, they would carry a higher interest rate than municipal bonds.

Impact Upon City's Finances:

Beyond the complex state and federal legal issues involved, the fiscal impact of authorizing municipal bonds for housing must also be considered. Cambridge currently has over $67 million in outstanding long-term debt and an additional $26 million in authorized but unissued debt. While this debt is tied to a sound ten year retirement schedule, there are other major bond financed projects that face the City in the future. Shortly, the Council will be asked to authorize an additional $33 million in long-term debt to finance sewer improvements. There are also serious concerns about a new treatment facility for the water delivery system, a cost that could meet or exceed the planned sewer projects. The City also needs to finance several other bond projects such as the Morse School and continued plant improvements at Cambridge Hospital. All of these scheduled projects will need to go ahead despite any further limitations that might be placed upon Cambridge by the passage of the CLT petition. While it is true that much of this debt would be offset by user fees, the bonds in question will by law, be required to be General Obligation Bonds backed by the full faith and credit of the City's taxpayers. To add significant additional debt for a non-traditional use of municipal funds at this time of other major capital needs might not be viewed by the rating agencies and our lenders as the most fiscally prudent action to take.

CONCLUSION:

Cambridge continues to face a major shortage of low and moderate housing, and we can continue to work towards the addition of such housing. It appears that despite significant state and federal regulations, the City's debt authority may be able to be used in some manner as a further instrument towards creating additional affordable housing. Given our known capital needs and continual pressure upon our operating revenues (Proposition 2 1/2, economic slowdown and possible passage of CLT Petition), I would urge that any use of this authority that could be deemed legal, be done in a manner that carefully weighed all of our pressing capital needs, and not be seen as a single solution to a very complex problem.

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EXECUTIVE DEPARTMENT
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September 24, 1990

To The Honorable, The City Council:

Attached please find a response from James P. Maloney, Assistant City Manager for Fiscal Affairs, relative to Awaiting Report Item No. 1, regarding a linkage program for Cambridge and the feasibility of the Cambridge Housing Authority issuing municipal bonds to develop low-cost housing.

Very truly yours,

Robert W. Healy

Robert W. Healy
City Manager

RWH/mev
enclosure

Agenda # 9 F-534

Awaiting Report Item No. 1 regarding a linkage program for Cambridge and the feasibility of the Cambridge Housing Authority issuing municipal bonds to develop low cost housing.

In City Council,

Sept. 24, 1990

Referred to the Affordable Housing Trust Board & the Housing & Community Development Committee

Copy sent to City Mgr. as Chair of Affordable Housing Trust Board 9/26/90

Copy sent to Housing & Community Development Committee 10/1/90