CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: March 18, 2016

To: Honorable Members of the Homelessness and Poverty Committee

From: Sharon M. Tso, Chief Legislative Analyst

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Subject: **FUNDING OPTIONS FOR ADDRESSING HOMELESSNESS**

SUMMARY

On January 27, 2016, the Homelessness and Poverty Committee considered Motion (CF 16-0047, Harris-Dawson/Huizar/Wesson) concerning actions to place a measure on a future ballot to generate funds for homeless housing and services.

Upon consideration of the Motion, the Committee requested a report providing detailed information regarding new, permanent funding options. Specifically, the CLA and CAO were requested to report on the various possible funding sources detailed in Attachment 1 to the Comprehensive Homeless Strategy (CHS).

This report reviews the requirements associated with placing revenue measures on the upcoming November 2016 State General Election ballot and the March 2017 City Primary ballot. This review is followed by an analysis of the 22 funding sources identified in Attachment 1 to the CHS, as well as other potential funding sources that have been identified since the release of that report. Finally, this report reviews the "No Place Like Home" initiative under consideration in the State legislature and other ballot measures that may appear on the November 2016 State General Election ballot.

Council may choose to select one or several of the following recommended funding sources for further consideration. Some funding sources can only be used for brick-and-mortar construction, while others can be used for any purpose designated and approved by the voters. Within the context of these funding sources, housing vouchers are considered a service. To fully fund the needs identified in the CHS, a combination of funding sources is necessary to meet both the brick-and-mortar construction needs and the service and facilities needs identified.

RECOMMENDATION

This report provides various funding considerations. Staff should be directed to report, as necessary, in accordance with Council direction on this matter.

BACKGROUND

The CHS, Section 10, provided an analysis of budgetary issues related to homeless services and housing, including an initial determination that the creation of an adequate number of vouchers and brick-and-mortar housing units is estimated to cost between $1.8 and $2.2 billion. In addition, an undetermined amount of funding will be needed to provide associated facilities for services such as storage, personal hygiene, and service navigation, as well as development of administrative support such as the Coordinated Entry System (CES).

As stated in the CHS, in light of limited resources and competing priorities such as public safety and public improvements to maintain streets and sidewalks, new funding sources must be pursued.

Attachment 1 to the CHS (provided as Attachment 1 to this report as well) provides a summary analysis of 22 funding sources that could potentially generate revenues to support the development of the housing and facilities needed, as well as to provide services. These are a variety of fees, bonds, and taxes, some of which require approval of the voters. Fees typically may be approved by the City Council and Mayor, though the voters may be required to approve in certain circumstances as noted in this report. Bonds and all taxes must be approved by the voters.

Fees that are enacted without voter approval must be exempt from the application of Proposition 26. Under Proposition 26, voter approval is required for any “fee” which charges more than the amount needed to compensate the government for the costs of providing a service or benefit. Voter approval is not required if the fee is related to a specific benefit or service provided to the payor and calculated to reimburse the City only for the costs incurred to provide that benefit or service. The funds generated by such fees may be used only for the specific purposes associated with that fee.

Bonds are a form of security whereby the issuing municipality receives a cash payment at the time of issuance in exchange for a promise to repay investors principal plus interest, known as debt service, over a period of time. Bonds should be used to finance essential capital assets where it is appropriate to spread the cost of the asset over more than one budget year. Examples of previous City bond issuances include Proposition Q, issued to construct police facilities, and Proposition F, issued to construct fire and animal services facilitites. There are different types of bonds that could be issued by or on behalf of the City, including general obligation bonds that are paid by an increase in ad valorem taxes. By financing in this way, the City recognizes that future taxpayers who will benefit from the investment will also pay a share of its cost. With few exceptions, the State prohibits cities from entering into such indebtedness unless voters approve the bonds with a two-thirds majority.

Under State law, new local taxes require voter approval. Local government taxes can be placed into one of three categories: property taxes to finance debt; general; and special. With respect to the latter two, general taxes are taxes that can be used for any governmental purpose, while special taxes must be used only for the specific purpose imposed by the ballot language. Since taxes are approved by the voters, funds would need to be used in the manner for which they were approved.

The various funding sources identified provide differing amounts of funding and are eligible for a variety of purposes. Some funding sources are restricted in use, while others can be used for a wide array of services and brick-and-mortar purposes. In making a determination of whether to approve or seek voter approval of these funding sources, it will be necessary to:

- Determine the total amount of funds generated;
- Balance and match the funding requirements for services and brick-and-mortar uses;
- Avoid or moderate conflicting effects and outcomes (e.g., negative impacts on housing development)
- Align City funding sources with federal, State, and County sources

Ballot Requirements.

Proposition 218 requires that any new tax assessed by a local government first be submitted to the electorate for approval. A general tax requires majority approval at a regularly scheduled municipal election. A special tax requires a two-thirds vote to approve and can be placed on any ballot.

The next State General Election will be held November 8, 2016. The Council typically approves a request for the City Attorney to prepare the necessary election documents no later than 14 days prior to the deadline for the Council to adopt resolutions to place a measure on the ballot. In 2016, however, these deadlines coincide with the Council's summer recess. In order to comply with the required election deadlines, Council will need to approve any actions before they adjourn into recess on July 1, 2016.

In particular, Council will need to request that the City Attorney prepare the necessary documents, such as resolutions of necessity and other elections resolutions, well in advance of the July 1, 2016 deadline. There is some possibility that other non-revenue City measures may appear on the State General election ballot. Due to the possibility of multiple measures, the City Council should allow adequate time for the City Attorney to prepare the necessary documents by providing instructions no later than June 1, 2016.

The last day for the Council to adopt Resolutions of Necessity (if required) is June 29, 2016. The last day for the Council to adopt election resolutions is July 1, 2016. The City may not place any City general tax on the November ballot.

To place a measure on the March 7, 2017 City Primary Nominating Election ballot, the deadline by which the Council must request the City Attorney to prepare the necessary documents is November 2, 2016. Council would need to approve any resolutions of necessity by November 15, 2016 and all other election resolutions by November 17, 2016. Since this is a Municipal Election, the Council may present both general tax and special tax measures.

Ballot Deadlines

Ballot	Council Request City Atty to Prepare Resolutions	Last Date to Adopt Resolution of Necessity	Last Date for Council To Adopt Election Resolutions	Date of Election
State General	June 1, 2016	June 29, 2016	July 1, 2016	November 8, 2016
Municipal Primary	November 2, 2016	November 15, 2016	November 17, 2016	March 7, 2017

Funding Sources Recommended for Consideration

Upon review of Attachment 1 to the CHS, staff determined that several funding concepts should be considered. The nine items recommended for consideration are:

1. Fee in Lieu of Inclusionary Zoning
2. Linkage Fee
3. Document Recording Fee
4. General Obligation Bond
5. Documentary Transfer Fee
6. Billboard Tax
7. Sales and Use Tax
8. Parcel Tax
9. Marijuana Tax

Generally speaking, these funding sources are proposed for the following reasons:

- They represent a new funding source for the purpose of addressing homelessness, not the redirection of existing funds.

- They include funding sources that the City previously explored, but for which new studies are required; and/or

- These funding options would serve as long-term or permanent sources of funds.

Included in this report is a description of other revenue measures identified in Attachment 1 and reasons for either reconsidering these items at a later date or eliminating them from further consideration at this time.

Each of the nine funding sources discussed below indicates whether the matter would be approved by the Council and Mayor or by the voters. It also indicates whether the funds generated may be used for any purpose or for specific purposes. It is recommended that the taxes noted below be presented to the voters as special taxes to ensure that funds would only be used for specified purposes suggested in the analysis.

1. Fee in Lieu of Inclusionary Zoning

Funding Type: Fee; one-time, temporary or ongoing depending on ordinance language
Approval By: Council and Mayor
Use: Restricted to construction of affordable housing and permanent supportive housing (PSH) only
Amount Generated: Unknown

Description: An Inclusionary Zoning ordinance requires developers to include affordable housing in their projects. An ordinance could be designed to allow developers to avoid inclusionary zoning provisions if a fee is paid in lieu of the construction of permanent supportive or affordable housing units. Programs vary from city to city and are created to meet the housing needs of each specific community; however, three characteristics are shared by almost all inclusionary housing programs: 1) a set-aside requirement, or a percentage of units within a proposed development that a developer is required to price at an affordable level; 2) developer incentives, or benefits to compensate the developer for pricing some units below market rates, and 3) income targeting, or the income range, usually based on area median income, that a city wishes to identify as affordable units.

Funding Potential: Unknown. Funding would vary depending on the structure of the Inclusionary Zoning Ordinance; for example, a structure such as Option A (see discussion under *Implementation Steps*) below would result in approximately twice the fees as Option C. Funding also depends on the participation level of developers.

Reason for Recommendation: This strategy allows for the monetization of inclusionary zoning and reduces the impact of inclusionary zoning on developers by allowing an option of paying a fee to 'opt out.' This may seem to defeat the purpose of inclusionary zoning, which is intended to facilitate the creation of affordable housing units, but there are circumstances when payment of a fee may be more advantageous or necessary. For example, design constraints on a property might prevent a developer from building the required number of units. Payment of a fee in such a case may ensure that the project is able to proceed and that the total number of housing units built is higher than if no project is built. Likewise, in some cases the cost of building one affordable unit on-site could purchase several affordable units off-site. Most inclusionary zoning is enacted at the municipal or county level.

Use of Funds: Currently, fee revenue must be used to facilitate the creation of the affordable units that the developer otherwise would have provided. A temporary voucher program to create affordable rental housing for working class individuals may be possible if the City can successfully demonstrate that an interim measure is needed until the City can annually produce the required affordable housing units identified in the City's Housing Element; however, this approach needs to be explored with the City Attorney.

Potential Disadvantages: The fee amount will need to be balanced so that it is large enough to generate sufficient revenue to fund the construction of new units and accurately represent the value of the affordable units that will not be built; however, the fee must not be so large that it will negatively impact development in the City.

Legal Issues: Past court decisions have constrained the ability of local government to implement inclusionary zoning. Currently, the City may not apply inclusionary zoning for rental housing projects. A recent decision by the State Supreme Court, however, has upheld the City of San Jose's inclusionary zoning ordinance related to for-sale housing. As a result, the City would be able to implement a limited inclusionary zoning ordinance related to for-sale housing. Legislation would be required to provide the framework for local governments to again implement inclusionary zoning laws with regard to rental housing.

It should be noted that the County has approved Inclusionary Zoning strategies in its homeless strategy through the support for legislation that would amend or clarify the Costa-Hawkins Rental Housing Act to allow an inclusionary zoning requirement for new rental housing.

Implementation Steps: Language for a payment-in-lieu fee for Inclusionary Zoning requirements would be included as part of an Inclusionary Zoning Ordinance as prepared by the Department of City Planning (DCP). The newly-established housing unit within the DCP will be bringing forward recommendations relative to affordable housing issues such as those addressed in a potential Inclusionary Zoning Ordinance. A fee study by DCP is required. Options presented may be similar to those considered in the City of Portland, such as:

A. Fee-in-Lieu allowed for any sized development with a cash-out cost at the true net development cost of producing units;

B. Fee-in-Lieu allowed for any size ownership development, and for rental developments up to 20 units, at a cost recommended by DCP; or

C. Fee-in-Lieu allowed for developments up to 20 units in size, at the same cash-out level as the Housing Replacement Ordinance.

Timeline: Likely to be one year or longer depending on the length of time needed to prepare the ordinance and receive approval by the Planning Commission, Mayor and Council.

Recommended Action: Instruct DCP, with the assistance of the Housing and Community Investment Department (HCID), and any other relevant departments to report on the feasibility, program components, impact of an in-lieu fee to affordable housing and support services, and the appropriate fee structure.

2. Housing Linkage Fee

Funding Type: Fee; one-time, temporary or ongoing depending on ordinance language
Approval By: Council and Mayor
Use: Restricted to construction of affordable housing and PSH only
Amount Generated: $38-$112 million annually

Description: A housing linkage fee is a one-time exaction to recover a portion of the public cost to meet demand for affordable housing resulting from new development, with revenue dedicated toward a broad range of affordable housing purposes. The fee is levied on new developments to finance affordable and permanent supportive housing activities within the City. To optimize the potential for generating housing linkage fees, it is advisable to apply the linkage fee ordinance broadly to many classes of properties. This fee was studied by the City in 2011, but not implemented.

Funding Potential: Based on the 2011 fee study, revenues could range from $38 to $112 million annually based on the size and scope of the approved fee. Previous nexus studies supported fees between $20,000 and $80,000 per market rate residential unit and $20 and $50 per square foot of commercial development. The fee can be applied to commercial development as long as application to such development is included as part of the mitigation fee (nexus) study.

Reason for Recommendation: The linkage fee could provide a consistent and permanent source of funding for housing development in the City. The County, through its complementary strategies to combat homelessness, included a strategy directing its Department of Regional Planning to conduct a nexus study for the development of an Affordable Housing Benefit program ordinance for unincorporated areas of the County.

Use of Funds: Support the production of affordable/homeless housing and preservation of existing affordable/homeless housing.

Potential Disadvantages: A fee that is set too high could possibly impact the rate of most development types in the City. Another inherent weakness of housing linkage fees is the volatile nature of this funding source as it is subject to economic cycles. The most effective tool for addressing this market volatility is scheduling the receipt of linkage fee payments over time.

Legal Issues: Requires determination of nexus between development, its impact to affordable housing and supporting housing services, and the size of fee necessary to mitigate this impact. The nexus study quantifies the maximum fees that can legally be charged for commercial and residential development.

Implementation Steps: Whether the linkage fee can be implemented is further dependent on the results of the fee study, in which an Affordable Housing Benefit Fee Ordinance would be developed by DCP and the Housing and Community Investment Department (HCID) for the review and approval of the Planning Commission, Mayor and Council.

Timeline: May require as little as six months, or up to one year or longer, depending on the length of time it takes to conduct the fee study (typically between four to six months), prepare the ordinance and receive approval by the Planning Commission, Mayor and Council. To ensure implementation of the fee by January 1, 2017, Mayor and Council approval of the ordinance would need to occur by end of November.

Recommended Action: No additional action is required at this time. Council approved support for the Comprehensive Homelessness Strategy's Strategy 7F. Strategy 7F directs DCP to conduct a nexus study for the development of an Affordable Housing Benefit Fee program ordinance. The CAO and HCID identified the necessary funds for DCP to conduct the study and provided the necessary instructions to effectuate the transfer of funds to DCP. With funding for the nexus study now in place (C.F. 15-0600-S94), the DCP released its request for bids on February 18, 2016. Proposals are due on March 17, 2016. The DCP plans to hire a consultant by the end of March 2016.

3. Document Recording Fee
Funding Type: Fee; one-time, temporary or ongoing depending on ordinance language
Approval By: Voters; Special, requires two-thirds Yes vote

Use: Construction of affordable housing and PSH and provision of homeless-related services
Amount Generated: Approximately $30 million annually based on proposed Building Homes and Jobs Act fee structure; fee must be defined in order to provide a more specific calculation

Description: This concept was identified as a potential source of revenue after release of the CHS. Under this proposal, a new fee would be assessed at the time of the recording of every real estate instrument, paper, or notice required or permitted by law to be recorded, per each single transaction per single parcel of real property in the City, based on State Assembly Bill 1335 (SB 1335), Building Homes and Jobs Act, which was not enacted. Many similar jurisdictions, such as the Los Angeles County Recorder/Registrar, charge consumers for costs associated with processing paperwork for commercial and industrial real estate projects. SB 1335 featured a cap of $225 per transaction. To the best of our knowledge, the only limitation on the number of document types that were proposed to be chargeable under the Bill was on those subject to the documentary transfer tax. Twenty percent of funding was to be placed into a trust fund to be used for affordable, owner-occupied workforce housing. Ten percent of funding was to address home ownership opportunities for agricultural workers and their families. The remainder could be expended for a variety of purposes, such as development, acquisition and preservation of affordable housing. Income restrictions would apply (up to 120 percent Area Median Income; AMI), in order for individuals to qualify for PSH, transitional housing, affordable housing, and housing vouchers.

Additional research is required to determine whether the City has the authority, separate from the County, to establish such a fee.

Examples of real estate document recording fees charged by cities throughout the country include fees associated with the processing of the following:

- Discharges of mortgage (a document that indicates that the borrower no longer is obligated to make further payments on a loan)
- Financing statements
- Releases of attachment
- Assignments of mortgage, writs of attachment
- Boundary line adjustment, amendment to survey, plat map or condominium
- Survey or amendment to survey

Funding Potential: State analysis of the impacts of AB 1335, which would have charged a $75 fee on all real estate filings excluding those subject to the document transfer fee, suggests that the State would have received approximately $300 million annually if the provisions of AB 1335 were implemented. The bill failed to pass the legislature. Based on the revenue estimate, it may be that Los Angeles would generate approximately $30 million annually depending on how the funds are allocated. Note that if the recording fee were to apply to commercial transactions alone, this lowers the projected revenue estimate.

Reason for Recommending: Adds options to pay for PSH construction and services Citywide.

Use of Funds: Support the production of affordable/homeless housing and preservation of existing affordable/homeless housing. The fee could contribute to City programs such as bridge housing, Rapid ReHousing and Permanent Supportive Housing. In addition, funds would be used for vouchers, services, and facilities.

Potential Disadvantages: Other competing revenue measures could decrease the electorate's appetite for a new fee. Requires that the State conduct various ministerial duties before funds are made available to cities. It is likely that the County would deduct a percentage of any funds raised to support their share of administrative costs.

Legal Issue: The legality of this fee has never been litigated. Any proposed document recording fee faces two potential levels of scrutiny. First, Article XIII A, Section 4 of the State Constitution precludes the enactment of any new special taxes or fees on the sale of real estate. Second, assuming the document recording fee is not subject to Article XIII A, Section 4 of the State Constitution, a concern remains as to whether California Government Code 27361, which imposes a standard fee for recorded documents, limits the City from imposing any additional fees on documents to be recorded with the County. If enabling legislation is required, a change to the State Constitution would require two-thirds of the legislature to advance the matter for voter approval.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: Additional evaluation of this proposal is needed. In addition, authorizing legislation and an election may be necessary. As a result, this funding source may not be available for voter consideration and implementation until 2018.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, to evaluate legislative options to allow for the implementation of such a fee.

4. General Obligation Bond

Funding Type: Bond
Approval By: Voters, two-thirds vote required
Use: Restricted to financing and construction of affordable housing and PSH
Amount Generated: $1.1 billion, or up to $1.8 billion pending PSH voucher qualification, or other amount approved by Council and Mayor

Description: A General Obligation (GO) bond is a voter-approved bond issuance payable from tax proceeds collected on secured and unsecured taxable property within the City and collected by the County Auditor Controller. These GO bonds generally provide the lowest cost of borrowing to finance the acquisition and improvement of real property such as housing and facilities, and provide a new and dedicated revenue source in the form of additional ad valorem property taxes to pay debt service on the GO bonds. These property tax revenues are distinct from general property tax collections and are dedicated to debt service payment on the GO bonds issued and cannot be levied or used for any other purpose.

Funding Potential: It is anticipated that a homelessness-related GO bond would raise up to $1.1 billion for PSH construction using the four percent tax credit funding total identified in the CHS. The City is consulting with its bond counsel to determine whether PSH vouchers can be covered through a GO bond, thereby potentially increasing the size of the proposed bond; however, preliminary staff review indicates that such use is unlikely to be eligible. If funds are ineligible for vouchers, an alternative would be to fund construction of storage facilities. For a bond issued over a 10-year period and paid over 30 years, the average tax would be $51.35 on a $327,900 home (median assessed value of a single-family home in 2015). The full levy would be about $91 per parcel in Year 11 when all the bonds have been issued.

Reason for Recommendation: A GO Bond would provide a substantial amount of funding upfront to jump start the acquisition and construction of the affordable housing and PSH housing needed in the City. GO Bonds have historically provided issuers with the lowest borrowing costs because the broad security pledge yields the highest possible bond rating and widest investor acceptance.

Use of Funds: Bond proceeds are typically used to fund infrastructure projects. Voters were asked to consider Measure H in 2006, which proposed using GO bond proceeds for the acquisition, construction, rehabilitation, development and financing of 10,000 new homes and rental units over ten years. This measure was narrowly defeated, collecting approximately 63 percent Yes votes.. A new

GO bond measure, subject to State law and potential federal income tax limitations, could function in a similar way as Measure H, which allocated funds to the following purposes:

- Help working families buy their first home
- Build rental housing affordable to low-income working families
- Build housing for homeless people
- Allocate funds for rental or homeless housing based on future needs yet to be determined.

Council and Mayor would need to determine the criteria to present to voters for such a bond, including the final size of the bond and the specific uses of the funds. As noted in the CHS, Section 10, an estimated $742 million to $1.1 billion is needed to build the number of PSH units needed. Bond funds can only be used for construction; funds may not be used for services or vouchers.

Potential Disadvantages: The threshold for voter approval is a two-thirds Yes vote, which can be challenging to obtain. Further, other competing tax measures could decrease the electorate's appetite for a tax increase. These GO bonds are limited by the State constitution to be used for acquiring or improving real property and generally are limited to facilities that provide wide public benefit and that have generated broad public support. The use of GO bond proceeds and the projects they finance would also be restricted to what the voters approve, and may be subject to limitations imposed under the Internal Revenue Code.

Legal Issues: It should be noted that certain proposed usages, such as loans to help families buy their first home, may be taxable under Internal Revenue Service rules. Investors must also be made aware of that, based on the purposes described above, approximately half of the bonds would be taxable.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

The ballot proposition must specifically have electors declare that assisting first-time home buyers serves a public purpose. In the event the measure is approved by the voters, there will be other administrative steps prior to an issuance of the GO bonds including, but not limited to, the following:

- Identification of projects, to the extent possible, to be financed;
- Selection of bond financing team;
- Preparation of bond disclosure document (official statement); and,
- Undertaking by the City of continuing disclosure obligations related to the GO Bonds.

Timeline: At least one year depending on which ballot the bond measure is placed due to the sale of bonds, assessment by the County Assessor and cycles associated with property tax billing and payments.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for a General Obligation Bond. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016

5. **Documentary Transfer Tax**

Funding Type: Tax; Special.
Approval By: Voters; Use of funds specifically for homeless purposes requires a two-thirds Yes vote
Use of Funds: Homeless services and associated facilities, affordable housing, and PSH construction
Amount Generated: up to $167 million annually.

Description: The Documentary Transfer Tax (DTT) is an assessment made at the point of a real estate property sale or a transfer of controlling interest in a legal entity holding. This fee is already charged at both the County and City levels. The current rate is $2.25 per $500 of sales value, while the County collects an additional $0.55 per $500 sales tax as a Property Transfer tax. This proposal seeks to raise or restructure the City's share of the fee. The proposed restructuring would establish a progressive rate structure whereby the City rate would be reduced for lower value transactions and increased for higher value ones. Proposed ballot language for a special tax would include specifying a percentage or amount of the DTT that would need to be directed to a special fund.

Funding Potential: Up to $167 million by doubling the current rate from $2.25 to $4.50 per $500 of sales price. Alternately, up to $128 million could be generated by the implementation of a progressive rate structure where the rate would be based on sales value quartiles for single family homes. The amount collected would vary from year to year and is dependent on housing market activity.

Reason for Recommendation: The DTT would be a flexible source of funding that could be used to finance housing development, vouchers and services.

Use of Funds: Use of funds is restricted according to the ballot language submitted to voters.

Potential Disadvantages: Competition from other tax-oriented measures is anticipated on the November 2016 ballot. The DTT is a volatile revenue source during periods of rapid growth or decline in the housing market.

Legal Issues: To designate any increase in the DTT as a special tax requires a two-thirds Yes vote. The current DTT is a general tax, and an additional special tax measure risks conflating both general and special tax revenues into a single special tax subject to legal challenge. The City Attorney should be consulted as to whether the City should pursue a special tax, or a general tax with a companion measure, that dedicates the resulting funds for homeless-related expenditures.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: Can be implemented during the first quarter following voter approval.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for an increase to the DTT. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016.

6. Billboard Tax

Funding Type: Tax; Special.
Approval By: Voters; Use of funds specifically for homeless purposes requires a two-thirds Yes vote
Use: Construction of PSH or supportive services
Amount Generated: Approximately $24 million annually

Description: A tax assessed on billboards and supergraphics in the City.

Funding Potential: A joint report from the Offices of the CLA and CAO previously estimated an annual funding amount of approximately $24 million based on a 12 percent tax on off-site signage. This 12 percent rate was determined to be consistent with other City users taxes, such as the transient occupancy, commercial and industrial electric and parking users taxes.

Reason for Recommendation: Provides a dedicated, flexible funding stream to address homelessness; could be used to finance housing development, vouchers and services.

Use of Funds: Construction of PSH or supportive services, such as hygiene facilities like mobile showers, safe parking, vouchers, homelessness prevention and outreach.

Potential Disadvantages: The fee may be considered to be a volatile revenue source because revenue growth or decline is linked to sales volume. It is anticipated that minimal start-up costs would be involved, but ongoing enforcement costs would need to be determined with the assistance of the Office of Finance. This measure may be interpreted as City support for expanding billboards in the City over community objections to billboards and supergraphic advertising. Conversely, City efforts to control this advertising medium may reduce the number of billboards which would reduce revenue from the tax.

Legal Issues: No legal issues identified related to a proposed tax; however, there has been extensive litigation related to billboards, in general, in the City.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: Timing of collection depends on the tax structure proposed. For example, if a billboard tax were structured similarly to a business tax, payment would be due on January 1 annually.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for a billboard tax. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016.

7. Sales and Use Tax

Funding Type: Tax; Special.
Approval By: Voters; Use of funds specifically for homeless purposes requires a two-thirds Yes vote
Use: Construction of PSH or supportive services
Amount Generated: Approximately $122 million annually

Description: Sales tax is levied on all retail sales of goods and merchandise, with the exception of sales specifically exempted by law. Use tax applies to storage, use, or other consumption in California of goods whose purchase is not subject to the sales tax. The local tax rate is capped at two percent of taxable sales. Depending on other potentially competing sales and use tax measures, the City may be able to increase the sales tax by up to 1 percent, depending on Countywide tax measures.

Funding Potential: A 0.25 percent transaction tax would generate approximately $122 million based on a 2012 consultant study.

Reason for Recommendation: A sales tax can provide a dedicated funding stream to address homelessness, and its use would be flexible as these funds could pay for both brick-and-mortar construction and related services.

Use of Funds: Construction of PSH or supportive services, such as hygiene facilities like mobile showers, safe parking, vouchers, homelessness prevention and outreach.

Potential Disadvantages: The County of Los Angeles is considering a similar tax and the Los Angeles Metropolitan Transit Authority (Metro) is considering a supplement to Measure R, which would further increase the County sales tax to fund transportation projects and programs. As such, a City sales tax may compete with other ballot measures for a sales tax increase, resulting in a lowered probability that voters would pass any individual tax initiative. The 2013 general sales tax measure, Proposition A, earned 45.3 percent of yes votes and did not pass.

Legal Issues: None identified.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: Revenues can be collected during the first quarter after ballot approval.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for a sales and use tax. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016.

8. Parcel Tax

Funding Type: Tax; Special.
Approval By: Voters; Use of funds specifically for homeless purposes requires a two-thirds Yes vote
Use: Construction of PSH or supportive services, such as hygiene facilities like mobile showers, safe parking, vouchers, homelessness prevention and outreach.
Amount Generated: $7.8 million annually for each $10 assessed per parcel

Description: A property tax set at a fixed amount per parcel, per room or per square foot, as opposed to a tax on assessed value.

Reason for Recommendation: Parcel tax revenue may be used to fund a variety of local government services. Use of funds does not need to directly benefit the property.

Use of Funds: The use of parcel tax revenue is restricted to the public programs, services, or projects that voters approved when enacting the parcel tax.

Potential Disadvantages: Threshold for voter approval is a two-thirds supermajority, which can be challenging to obtain. The 2014 parcel tax measure, Measure P Los Angeles County Parks and Recreational Facilities Special Parcel Tax earned 62.9 percent of yes votes and did not pass. Further, other competing tax measures could decrease the electorate's appetite for a tax increase. These tax revenues are generally limited to facilities that provide wide public benefit and that have generated broad public support.

Legal Issues: The City Attorney should be requested to advise whether a special parcel tax must provide services that benefit property owners directly.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: At least one year depending on which ballot the tax measure is placed due to cycles associated with property tax billing and payments.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for a parcel tax. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016.

9. Marijuana Tax

Funding Type: Tax; Special.
Approval By: Voters; Use of funds specifically for homeless purposes requires a two-thirds Yes vote
Use: Construction of PSH or supportive services
Amount Generated: $16.7 million annually

Description: The City would join other cities in California in passing up to a 15 percent excise tax on medical marijuana sales and cultivation. Riverside County cities successfully passed a tax on medical marijuana sales and cultivation. Cathedral City voted to enact a $0.15 per dollar sales tax on medical marijuana; in Desert Hot Springs voters approved a 10 percent monthly gross receipts tax on sales, plus a tax on medical marijuana cultivation of $25 per square foot for the first 3,000 square feet, and $10 per square foot thereafter. Santa Cruz city and county also approved a retail tax, and voters approved a 6 percent added sales tax in Shasta Lake City. Such a tax could be charged for medical marijuana, currently legalized in the City; or, if recreational marijuana is approved at the State level, taxing either or both would be an option. The County of Los Angeles is currently exploring this potential source as an option to fund its homelessness initiatives.

Funding Potential: An estimated sales tax amount of $16.7 million annually based on 15 percent of 2015 gross receipts tax; taxable amount relative to recreational-use sales and cultivation unknown. Existing medical marijuana clinics are subject to a six percent tax on gross receipts. If the legalization of recreational marijuana use is approved on the November 2016 ballot, revenues to the City would be significantly more.

Reason for Recommendation: Special taxes are levied on several specific products, such as gasoline and tobacco. Marijuana is a new product in the marketplace and could be a significant source of new revenue.

Use of Funds: Construction of PSH or supportive services, such as hygiene facilities like mobile showers, safe parking, vouchers, homelessness prevention and outreach.

Potential Disadvantages: There are multiple, anticipated initiatives involving marijuana on the November 2016 ballot; this may lead to confusion on behalf of the voting public.

Legal Issues: None identified.

Implementation Steps: If the Council chooses to place this measure on the November 2016 ballot, adequate time should be given to the City Attorney to prepare the necessary documents. In order to do so, the Council should make the request to the City Attorney to prepare the election resolutions placing measures on the ballot no later than June 1, 2016. The last day for the Council to adopt a Resolution of Necessity (required for the issuance of bonds) is June 29, 2016. The last day for the Council to adopt Election Resolutions is July 1, 2016. If the Council chooses to place this measure on the March 7, 2017 Primary Nominating Election ballot, the last day for Council to instruct the City Attorney to prepare resolutions placing measures on the ballot is November 2, 2016.

Timeline: Unknown given that sales tax revenues and collection are likely to be structured differently than cultivation revenues and collection.

Recommended Action: Instruct the CAO and CLA, with the assistance of the City Attorney, City Clerk, and any other relevant departments to report on the feasibility, impacts and appropriate structure for a marijuana tax. Request, no later than June 1, 2016, the City Attorney to prepare the necessary resolutions so that Council may adopt the Resolution of Necessity by June 29, 2016 and the election resolutions by July 1, 2016.

<u>Funding Sources Not Recommended at this Time</u>
As noted, Attachment 1 to the Comprehensive Homeless Strategy included a total of 22 potential revenue items for consideration as sources of funds for programs that would create housing for the homeless and associated services. Again, as noted previously, several of those items are recommended for further consideration. The items that are not recommended for further consideration at this time are those that:

- Do not meet the primary criteria of providing new funding resources,
- Are already programmed to support the development of affordable housing and PSH,
- Are not eligible for housing or homeless service purposes; or
- Would not likely generate sufficient funds to meet program demands.

Several of these sources remain available for additional consideration at a later date.

Redevelopment Property Tax Trust Fund Distributions (aka "Boomerang" Funds or Former CRA Tax Increment)
These funds are not recommended as they are already included in budget projections as General Fund revenue funding current City services and do not represent a new funding resource. Furthermore, both the Housing and Community Investment Department and the Economic and Workforce Development Department have proposed the set-aside of these funds toward affordable housing and economic development projects. Should Council choose to re-program these General Fund revenues toward affordable housing and homeless services, it would be necessary to identify corresponding reductions in services elsewhere in the City's budget.

General Fund Set-aside
As noted in the latest Financial Status Report from the CAO, the demand for services supported with General Fund revenue continues to rise, while many General Fund revenue sources are flat or decreasing. With nearly 90 percent of all 2015-16 General Fund revenues currently allocated for Police (53.3 percent), Fire (18 percent), City Attorney (3.1 percent), Street Services (2.2 percent), LADOT (3 percent), and the Charter-mandated allocations to Libraries (4.4 percent) and Recreation & Parks (5.3 percent), scarce remaining General Funds must be shared between all other Council and Mayoral priorities. Setting aside a portion of General Fund revenues for homeless services and/or facilities would require a rebalancing of the allocations among these competing interests, and will likely necessitate reductions in resources for many priority services. The City's annual budget process, led by the Mayor and Council, is the mechanism by which allocation changes can be made.

Former CRA/LA Excess Non-housing Bond Proceeds
Following the dissolution of redevelopment in California, it was determined that certain non-housing bond proceeds remained available for use. The City successfully negotiated an agreement with the CRA/LA and the State Office of Finance whereby the City will be able to expend approximately $84.1 million of those funds for the purposes designated in the bond covenants. The Council approved actions to govern the use and administration of these funds (C.F. 14-1174) and the City executed the Bond Expenditure Agreement (BEA) on January 16, 2015.

As part of the negotiations related to the BEA, a City Working Group comprised of the CLA, CAO, Mayor's Office, Economic and Workforce Development Department, Housing and Community Investment Department, and each respective Council Office reviewed the underlying bond covenants, adopted redevelopment plans, last adopted five-year redevelopment implementation plans, and citywide goals and objectives to establish a list of priority projects, programs, and activities eligible for use of the Excess Bond Proceeds. Those projects, programs, and activities are listed as "Potential Projects" in the Bond Spending Plan found within the BEA. All funding allocations and expenditures are limited to those eligible "Potential Projects" and any deviation would require an amendment to the BEA that is subject to review and approval by both the CRA/LA and City Council.

Due to the limited resources available, the one-time nature of these funds, the specific covenants and contractual obligations restricting the use of the use of these funds, and the limited geographic extent where the funds can be used, these would not be an effective source of funds to support homeless services. Excess Bond Proceeds could be allocated for affordable housing projects in some redevelopment project areas according to the terms of the BEA. Due to time constraints imposed on the funding, a decision to allocate eligible funds to these purposes would need to be made relatively soon.

Former CRA/LA Excess Housing Bond Proceeds
In June 2015, the Housing and Community Investment Department (HCID) received $12.8 million in Housing Excess Bond Proceeds from the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA). The Housing Bond Expenditure Agreement (C-125743) between the CRA/LA and the City (by and through the HCID) outlines how HCID can use these funds for City housing projects that meet the conditions and requirements contained in the Indenture Bond documents (e.g. Housing projects contemplated prior to dissolution). It is anticipated that some of the projects funded will include Permanent Supportive Housing (PSH) units, but the funds are not limited to PSH units. These are one-time funds and there is no option to generate additional funds from this source. These funds are already dedicated to funding affordable housing, including PSH. Therefore, no additional action is recommended.

Community Development Block Grant (CDBG)
The City receives an annual allocation of CDBG funds from the federal government. These funds support a wide range of community services, including $2.7M in funding provided to LAHSA for a range of services in the homeless Continuum of Care, such as supportive services, emergency shelter, and housing. CDBG also funds other service programs, including Domestic Violence and the FamilySource System, which provide much-needed support to disadvantaged residents. Therefore, this funding source is not recommended as an additional source. The amount of CDBG funds available has declined steadily over the last decade and is controlled by the federal government. Due to the limited availability of funds and the reliance on federal allocations, this would not be a reliable source of funds for expanded homeless services. Further, increasing the availability of funds for homeless services would result in a reduction in support for other programs and services.

Delay Scheduled Business Tax Reduction:
In February of 2015, the City Council and Mayor enacted Ordinance No. 183419 to phase in a reduction of the gross receipts tax for the Professions and Occupations classification from $5.07 per $1,000 of Gross Receipts to $4.75/$1,000 on January 1, 2016; to $4.50/$1,000 on January 1, 2017; and eventually to $4.25/$1,000 after December 31, 2017. The City Attorney has indicated that there may be legal issues to consider with regard to a delay. Delaying the two remaining tax-rate reductions would avoid the projected reduction in business tax revenues, thereby allowing these funds to be programmed to fund homelessness initiatives. It is estimated that each reduction would result in a $15 million reduction in revenue for the City. This option is not recommended at this time pending further legal review.

Debt Financing by the Municipal Improvement Corporation of Los Angeles (MICLA)
MICLA is a non-profit financing corporation established in 1984 to assist the City to finance capital projects and purchase equipment that has a useful life of at least six years. Debt financing issued through MICLA creates a General Fund obligation for the life of the bond. Under City Policy, total annual debt service payments for nonvoter-approved debt cannot exceed six percent of General Fund revenues. The CAO's February 2016 estimate is that the City's current debt service obligations are 4.46 percent of General Fund revenues. In a November 2015 report, the CAO projected that anticipated expenses, such as vehicle replacement and capital projects such as the civic center project and convention center expansion, are expected to use the remaining debt capacity through 2020.

Demolition Fees
Under this proposal, a fee would be assessed for the demolition of any housing unit in the City. Demolition Permit data maintained by the Department of Building and Safety indicate that the number of demolitions each year varies, though

there has been a recent increase in housing unit demolition. The data do not indicate whether units have been replaced. Such a fee may have unintended consequences of reducing the replacement of substandard or outdated housing. In addition, the fee would need to be set at a substantial rate to generate enough funds to support the development of new housing. For these reasons, this concept is not recommended for additional consideration at this time since other funding sources identified in this report have the potential to generate more revenues.

Demolition Permits, 2011-2015,

including alterations that reduced the total number of units in a building

Year	Permits	Units Demolished	$1,000 per Unit	$5,000 per Unit	$10,000 per Unit
2011	519	969	$ 969,000	$ 4,845,000	$ 9,690,000
2012	663	1,106	$1,106,000	$ 4,845,000	$ 11,060,000
2013	726	1,030	$1,030,000	$ 5,150,000	$ 10,300,000
2014	1,044	1,490	$1,490,000	$ 7,450,000	$ 14,900,000
2015	1,107	1,711	$1,711,000	$ 8,555,000	$ 17,110,000

Conversion Fees

A conversion fee could be charged on rental units that are converted to condominiums. Building and Safety does not currently collect data on rental unit conversions. Additional research is needed to determine the potential revenues that could be generated from this source.

Parking Occupancy Tax

The City imposes a 10 percent tax on all parking fees collected from patrons of parking facilities. The FY 2015-2016 budget estimates parking occupancy tax revenues at $103 million. Each one percent increase in the tax would generate approximately $10 million. This tax source is not recommended at this time due to the low amount of funding generated by a tax increase and the perception of high parking costs in certain areas of the City.

Transient Occupancy Tax (TOT)

The City's TOT is levied on room rental rates for hotel and motel rooms and is currently set at 14 percent, with 13 percent accruing to the General Fund and 1 percent supporting the Convention and Tourism Board. Of the 13 percent accruing to the General Fund, one percent is allocated to the Department of Cultural Affairs. The FY 2015-2016 budget estimates TOT revenues at $216 million (13 percent). A one percent increase in the TOT, then, would generate approximately $16.6 million. This funding source is not recommended at this time since an increase in the TOT would place City hotels at a competitive disadvantage in relation to other cities in the Los Angeles area. A survey of Los

Angeles area cities shows TOT rates in the area: Unincorporated LA County, 12 percent; Burbank, 10 percent; Pasadena 12.11 percent; and most other LA County cities are between 10 and 12 percent. A one percent increase would not generate a significant source of funds for the affordable housing needed in relation to the other funding sources discussed above.

Enhanced Infrastructure Financing District (EIFD)
The primary funding mechanism in EIFDs is the capture of tax increment financing in a defined area. Tax increment financing is generated from an EIFD designated area. The year an EIFD is established is considered the base year. Any future property tax increase above the base year level, in the percentage allocated by each of the participating taxing entities is pledged toward the EIFD. In addition, EIFDs may levy assessments and fees, borrow loans, and receive grants. Maximum financial impact within an EIFD is attained when partnering with other voluntary taxing entities, most notably the County. When there are two or more participating entities, each of their legislative bodies must approve a Resolution to form an EIFD and at the same time form a Public Financing Board (PFA). The PFA shall be comprised of a majority of representatives from the legislative bodies of the participating entities and at least two public members.

The PFA is charged with creating an Infrastructure Financing Plan (IFP) that outlines project goals as well as a work plan for the EIFD funds, including any plans to issue bonds. EIFDs can bond against tax increment with a 55 percent favorable vote. Unlike CRIAs (discussed below), an EIFD is not required to set aside a percentage of its proceeds for affordable housing. The designation of tax increment for projects in EIFD areas would result in a reallocation of revenue that the City currently receives in the General Fund. This financing tool is new and has not been implemented anywhere in the State. The financial costs, impacts, timeline to generate funding, and the amount of funding that can be generated are unknown at this time.

Community Revitalization and Investment Authorities (CRIA)
A CRIA can only be established in prescribed areas based on specified conditions related to income, poverty, unemployment and deteriorated infrastructure and structures. The primary funding mechanism for CRIAs is the capture of tax increment financing in a defined area. Tax increment financing is generated from a CRIA designated area. The year the CRIA is established is considered the base year. Any future property tax increase above the base year level, in the percentage allocated by each of the participating taxing entities would be pledged toward the CRIA. In order to maximize the impact of CRIAs, joint agreements would need to be negotiated with other taxing entities (e.g. County) that would voluntarily contribute a significant amount of tax increment to projects of mutual interest. When two or more taxing entities participate, they form a CRIA (Authority) comprised of a majority of members from the legislative bodies that created the CRIA and a minimum of two public members.

The Authority adopts a Community Revitalization and Investment Plan (subject to protest) outlining its project goals and financial analysis, including its plan to issue bonds. Prior to or after adopting a Plan, a participating entity may adopt a Resolution allocating its shares of tax increment. A participating entity may also repeal its Resolution with required notice, but its share of pledged tax increment will continue to be allocated until its debt has been fully repaid. Also, 25 percent of CRIA funds must be designated for affordable housing. CRIAs can bond against tax increment without a vote of the electorate. Because the key funding mechanism for CRIAs is the capture of tax increment, eligible areas would also need to project significant growth in property tax value. The set-aside of tax increment for projects in CRIA areas would result in a reallocation of revenue that the City currently contributes to its General Fund. This financing tool is new and has not been implemented anywhere in the State. The financial costs, impacts, timeline to generate funding, and the amount of funding that can be generated are unknown at this time.

Community Facilities District

A community facilities district is formed under the **Community Facilities Act** (more commonly known as **Mello-Roos**) law enacted by the California State Legislature in 1982 as revised. This requires that a specific area be defined, a parcel tax rate determined, and a vote of the property owners in the defined area be conducted to create the district and approve the tax. Since the demand for affordable housing and PSH is a Citywide concern, the community facilities district is not an effective tool to generate revenue and fund the development of the needed housing. The GO Bond, discussed above, is a more appropriate tool for this purpose.

Affordable Housing and Sustainable Communities (AHSC)

The State's AHSC Program, one of 11 Cap-and Trade programs, funds projects that result in a reduction of greenhouse gas emissions. The City currently supports this concept and is in the process of considering co-application with developers of Transit-Oriented Developments (TOD) or Integrated Connectivity Projects (ICP). A limited amount of ASHC funds are awarded annually throughout the State. Awards are made on a competitive basis to applicants with specific TOD affordable housing projects or ICP transportation projects. In the first funding round, a total of nine projects located in the City were awarded $30 million. The second round of AHSC funding is currently underway and several affordable housing and PSH projects in the City will be submitted for consideration. It is anticipated that some of the projects funded will include PSH units, but the funds are not limited to PSH units. This program will result in the construction of new affordable housing units, including PSH, therefore no additional action is required.

New Market Tax Credits (NMTC)

The New Market Tax Credits (NMTC) Program is not recommended as a viable homeless funding option for a variety of reasons. First, the use of these funds is contingent on availability, and currently, there are no funds available. The Los Angeles Development Fund recently applied for an allocation of approximately $88 million in December 2015 with the Community Development Financial Institutions (CDFI) and recipient awardees will be announced in June 2016. Second, it is not practical to rely on this funding source as a steady income stream as funds are allocated annually through a competitive bidding process. The CDFI Fund last awarded a NMTC allocation to the LADF in 2012. Third, NMTC funds, should they be available, can be used for permanent supportive housing or affordable housing, but must be less than twenty percent of the project's total cashflow. The variety of factors associated with the evaluation of projects applying for NMTC could significantly constrain the eligibility of projects for this funding source. Finally, funds are controlled by an independent Board with separate Advisory Board input. These funds are typically used as the last funding source for a project. For the above mentioned reasons, the NMTC Program is not recommended as a viable funding source for homeless funding.

California State Senate Initiative; State and County Initiatives for the November Ballot

"No Place Like Home" State Senate Initiative
Senate President Pro Tempore Kevin de Leon has developed a bipartisan proposal, the "No Place Like Home" Initiative, to provide over $2 billion to support the development of housing resources for chronically homeless persons with mental illness. The proposals provide local governments with additional resources and flexibility to better serve homeless individuals and families, increase access to affordable housing, address the effects of income inequality, and extend programs for the homeless who are either disabled or in need of mental-health assistance. This effort is expected to create approximately 10,000 new housing units.

A key element of this legislative package is that it re-purposes Proposition 63 (2004) – The Mental Health Services Act – bond money and leverages billions of additional dollars from local, State, and federal funding sources. The initiative will provide:

- $2 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness.

- $200 million, over 4 years, to provide short-term supportive housing through rent subsidies, while the permanent housing is constructed or rehabilitated.

- Support for two special housing programs that assist families:

- The “Bringing Families Home” pilot project, a county matching grant program to reduce homelessness among families that are part of the child welfare system.

- The CalWORKs Housing Support Program, which provides housing and support services for CalWORKs families in danger of homelessness.

- An increase in Supplemental Security Income/State Supplementary Payment (SSI/SSP) program grants which provide income support for the aged, blind, and disabled poor who cannot work. These increases will assist about 1.3 million low-income Californians (72% with disabilities and 28% who are elderly).

- A one-time investment to incentivize local governments to boost outreach efforts and advocacy to get more eligible poor people enrolled in the SSI/SSP program.

The Council has already adopted a legislative position to support the “No Place Like Home Initiative” (C.F. 15-0002-S116) and the League of California Cities has adopted a position in support of the proposed concept. This initiative has bi-partisan support in the Legislature.

State Initiatives Approved for the November 2016 Ballot

Four Statewide initiatives have qualified for the State General election.

Title	Subject	Description
Public Vote on Bonds Initiative	Elections and campaigns	Requires voter approval for projects that cost more than $2 billion funded by revenue bonds.
Public Education Facilities Bond Initiative	Education	Authorizes issuance and sale of $9 billion in bonds for education and schools.
Condoms in Pornographic Films Initiative	Adult entertainment	Requires the use of condoms in all pornographic films produced in California featuring sexual intercourse.
Drug Price Relief Initiative	Healthcare	Prohibits state agencies from paying more for a prescription drug than the lowest price paid for the same drug by the United States Department of Veterans Affairs.

State Initiatives with 25 Percent of Signatures Threshold Met
In addition to the above initiatives approved for the ballot in November, the following measures have achieved 25 percent of required signatures and are therefore potential candidates for the same ballot:

<u>Property Tax Surcharge to Fund Poverty Reduction Programs</u>: Imposes an additional surcharge not to exceed one percent of the full cash value of real property with an assessed value of over $3 million.

<u>Death Penalty Repeal:</u> Repeals the death penalty as maximum punishment for persons found guilty of murder and replaces it with life imprisonment without possibility of parole.

<u>Death Penalty Procedures</u> - Changes procedures governing state court appeals and petitions challenging death penalty convictions and sentences. Designates the superior court for initial petitions and limits successive petitions.

<u>Legalize Recreational Use of Marijuana</u> – The measure would legalize marijuana and hemp and designates State agencies to license and regulate the marijuana industry.

<u>Campaign Finance Donor Disclosure:</u> Creates a constitutional right to public disclosure of money used to finance campaign activity and influence government actions.

<u>Firearms/Ammunition Sales</u>: Prohibits possession of large-capacity ammunition magazines and requires their disposal by sale to dealer, destruction, or removal from State.

<u>Legislature/Legislation and Proceedings:</u> Prohibits the legislature from passing any bill unless it has been in print and published on the Internet for at least 72 hours before the vote, except in cases of public emergency.

<u>Carry-Out Bags</u> - Redirects money collected by grocery and other retail stores through the sale of carry-out bags. This initiative applies whenever any State law bans the free distribution of a particular kind of carry-out bag and mandates the sale of any other kind of carry-out bag.

<u>Minimum Wage</u> - Annually increases the minimum wage paid by employers with 26 or more employees until the wage reaches $15.00 per hour on July 1, 2020. For employers with 25 or fewer employees, annually increases minimum wage until it reaches $15.00 per hour on July 1, 2021.

<u>Cigarette Tax to Fund Healthcare, Research and Tobacco Use Prevention and Law Enforcement</u>: Increases the cigarette tax by $2.00 per pack, with an equivalent increase on other tobacco products and electronic cigarettes

containing nicotine. This initiative allocates revenues primarily to increase funding for existing healthcare programs; also for tobacco use prevention/control programs, tobacco-related disease research and law enforcement, University of California physician training, dental disease prevention programs and administration.

Tax Extension to Fund Education and Healthcare: Extends by 12 years the temporary personal income tax increases enacted in 2012 on earnings over $250,000 for single filers; over $500,000 for joint filers; and over $340,000 for heads of household. This initiative allocates 89 percent of the tax revenues for K-12 schools and 11 percent to California Community Colleges, and allocates up to $2 billion per year in certain years for healthcare programs.

Hospitals, Executive Compensation: Prohibits hospitals, hospital groups and other hospital-affiliated groups and health care districts from paying annual compensation or providing severance packages in an amount exceeding the salary and expense allowance of the President of the United States (currently $450,000).

County Initiatives

In February 2016, the County Board of Supervisors directed their Chief Executive Officer (CEO) to report within 45 days regarding options to increase revenues dedicated specifically to address the County's homeless crisis, such as a Mental Health Services Act-like proposal, and conduct polling and research to advise the Board regarding the optimal timing and crafting of such options. The CEO was also asked to indicate the impacts of other initiatives being considered on the November 2016 ballot.

On March 9, 2016, the CEO released a report in response to the request of the Supervisors (Attachment 2). The report indicates that five funding sources, summarized below, are potential Countywide revenue options that should be studied further. The CEO and County Counsel will report further on these items:

Parcel Tax – Parcel tax elections are held when a taxing district in California wishes to raise revenues through imposing an additional tax. The taxes are a form of property tax that is paid by the owners of parcels of real estate. Unlike standard property taxes that are based on the value of the property, a parcel tax is an assessment based on the characteristics of the parcel. If voters approve, parcel taxes can be imposed on local units of government. A two-thirds supermajority vote is required for the approval

If approved, a County Special Parcel Tax could authorize the County to levy for 30 years a special parcel tax per parcel of land. The tax measure may require annual independent financial audits. While not directly related to this proposal, when a Parks and Recreational Facilities SPT was a ballot question in November

2014, it was estimated that the SPT would have generated about $54 million per year for neighborhood and regional parks and recreation. The measure was narrowly defeated.

Redirect Measure B Revenue – In 2002, voters approved Measure B to levy a parcel tax on all properties in the County to provide emergency medical services. Under this proposal, a portion of those funds would be allocated to services related to the homeless. The County Departments of Health Services and Public Health have indicated that redirecting these funds would create a deficit in departmental services. The CEO indicates that County Counsel would need to advise on the legal steps required to effect such a use of these funds.

Marijuana Tax - While the specific proposal for Los Angeles County is unknown at this time, Riverside County cities successfully passed a tax on medical marijuana sales and cultivation. Cathedral City, for example, voted to enact a 15 percent sales tax on medical marijuana; in Desert Hot Springs voters approved a 10 percent tax on sales, plus a tax on medical marijuana cultivation of $25 per square foot for the first 3,000 square feet, and $10 per square foot thereafter. Santa Cruz city and county also approved a retail tax, and voters approved a six percent added sales tax in Shasta Lake City.

Transaction and Use Tax (TUT) – The County has similar authority to the City to levy a local sales and use tax. As noted previously, the total capacity is two percent. The County currently levies TUTs totaling one percent. The County could seek to levy up to an additional one percent tax.

Local Supplement to Mental Health Services Act Tax – Under this proposal, the County would seek authority in State law to allow the County to seek voter approval of a local income tax similar to the State's Mental Health Services Act (MHSA) tax which levies an income tax on personal income in excess of $1 million per year.

Additional Tax Measure for the November Ballot

Measure R2 is being proposed by Metro to add 18 years to the life of the original half-cent, Countywide sales tax Measure R and implement an additional half-cent sales tax over a 30-year period. Metro indicates that this tax could generate in excess of $120 billion. A final decision regarding inclusion on the November ballot is anticipated within the next several months.

Potential Countywide Initiatives for the November 2016 Ballot

It is anticipated that additional initiatives are being considered by the County relative to the following:

- Municipal Water Districts
- Health Care Districts
- Recreation and Park District
- Water Agencies
- Water Replenishment District
- School Districts
- Municipal Elections
- Build Better LA (County Federation of Labor/Housing Advocates)

It should be noted that the Build Better LA initiative includes an in-lieu fee to be determined by the City and therefore may be viewed as a competing factor relative to potential City-proposed, developer-oriented initiatives, such as the Fee in Lieu of Inclusionary Zoning and Linkage Fees.