General obligation bonds for affordable housing

Overview

General obligation bonds are government-issued bonds that are repaid from state or local general funds or a dedicated tax. The issuing entity (e.g., the city) places its full faith and credit in paying back the purchasers of the bond.

The proceeds can be used by cities, counties or states to provide subsidies for affordable housing projects or fund other affordable housing programs. General obligation bonds stand in contrast to multifamily affordable housing bonds (and other similar private activity bonds), in which the bond’s revenue is used to issue loans for one or more housing project(s) and the bond holders look for repayment from the projects/developers that made use of the bond proceeds.

Securing general obligation bonds can be challenging, as many jurisdictions require a special election to authorize a bond issue. Once issued, however, the proceeds from general obligation bonds for housing can be used flexibly—to fill financing gaps, fund state and local affordable housing programs, or achieve other goals. Because the interest on the bonds is exempt from federal and sometimes state income tax, and sale of the bonds is subject to a competitive bidding process, the funds can be raised at relatively low interest rates.

General obligation bonds provide a large pot of money upfront, rather than a smaller annual funding stream, and so may be more appropriate for jurisdictions seeking to make a significant investment in a specific project or group of projects. This section describes key considerations for local jurisdictions considering a general obligation bond issue.

Approach

The process for approving a general obligation bond issue depends on the state’s Constitution. In many cities, towns and counties, once the City or County Board approves a general obligation bond for housing measure, a special election or referendum is held in which the public votes on whether to approve the proposed bonds. Affordable housing may be the only activity authorized for proceeds of a particular bond or may be one of several activities authorized, which might also
include allocations for transportation improvements, public parks, and other uses eligible for funding through general obligation bonds. The timing of the special election or referendum may be driven by practical as well as political considerations—e.g., will an affordable housing bond garner more votes if presented alongside other issues, or will the presence of competing priorities hurt its odds of passage?

In preparing a ballot measure, sponsors of the bond issue will need to make a series of decisions, including the amount requested and the time period over which the proceeds will be allocated. Cities, towns and counties also need to determine what revenue source(s) will be tapped to repay the bonds. The funds may be raised through a special dedicated tax levy, temporary surcharge added to an existing tax payment (e.g., property taxes), or by tapping the general fund or other existing funding source. The approach that is most likely to be successful in a public vote will vary depending on local dynamics and priorities.

Eligibility

Many jurisdictions use general obligation bonds to capitalize a housing trust fund or provide funding to support an existing housing program. In this case, the eligible uses will be governed by policies applicable to the housing trust fund or the program being funded. Because general obligation bond issues result in a limited, one-time infusion of capital, they are also well-suited for raising revenue for a specific new initiative or to achieve a series of objectives. Revenue from a 2015 general obligation bond issue in San Francisco, for example, was targeted for investment in public housing and affordable housing for low- and middle-income households, with planned activities including the reconstruction and rehabilitation of two public housing developments, creation of four multifamily buildings affordable to low-income individuals and families, and expansion of first-time homebuyer programs. For more details, see San Francisco 2015 Affordable Housing General Obligation Bond, prepared by the Mayor’s Office of Housing and Community Development.

Feasibility

Some jurisdictions limit the amount of outstanding general obligation bond debt at any given time. In these places, primary consideration should be given to whether capacity exists under the ceiling for additional bond issues. If not, it may be necessary to delay the referendum until other obligations have been satisfied.

As mentioned above, general obligation bonds typically require approval by the general public. In some jurisdictions, the approval margin must be greater than in other elections. For example, Kansas City, MO requires a supermajority of 57.1 percent
City officials seeking to introduce an affordable housing bond proposal will need to determine if there is sufficient popular support for a bond issue or if it will be possible to generate that support before an election. This process should include careful consideration of the amount to be raised, purpose(s) for which revenue will be used, and repayment method. The chances for success are likely to be higher when a coalition of advocates and practitioners mobilizes to help support the bond’s passage.

Finally, the jurisdiction’s bond rating will have practical implications for the feasibility of using general obligation bonds as a low-cost strategy to fund affordable housing activities. The interest on the bonds is not subject to federal income tax (and sometimes not state income tax), helping to make this a relatively low-cost tool to generate revenue. However, interest rates vary depending on the city’s bond rating. Jurisdictions whose ratings have been downgraded following budget shortfalls, unfunded pension obligations, or other financial challenges may be required by investors to pay comparatively high interest rates.

**Other considerations**

- **Approved uses of general obligation bonds.** General obligation bonds are used to fund activities that support a public purpose. Some investments fit clearly into this category, such as improvements to public roadways or water and sewage treatment facilities. Whether affordable housing qualifies as a public purpose can vary by community, affecting whether it is an eligible use of general obligation bond revenue. For example, San Francisco, CA considers investments in affordable housing to be an eligible use of general obligation bonds, even though the proceeds are commonly lent to private property owners and developers (rather than invested directly by the city). This approach enables housing developers to use the government funding to leverage additional resources that are not available to public agencies. In contrast, local officials in Denver, CO have argued that affordable housing should not be funded with general obligation bonds. The city does not own or manage the affordable properties that would be supported with bond proceeds, and therefore, the officials argue, the investment would not serve a public purpose. 

**Example**

- In November 2016, voters in Portland, OR approved a $258.4 million bond intended to create new and preserve existing affordable rental housing. Specifically, the bond is expected to fund 1,300 apartments, including 600 for households earning less than 30 percent of the median family income. The fund will be repaid by Portland homeowners through a property tax increase of 42 cents per $1,000 of assessed
value. For more details, see here.

Related resources

**Economic impact**

- **The Economic Impact of General Obligation Bonds for Affordable Housing in Austin**, Civic Economics and Housing Works Austin (May 2012) – This analysis estimates the economic multiplier effect of bonds issued for affordable housing in Austin in 2006. The brief also provides a general framework for other cities to assess how general obligation bonds could impact their local economies.
- **General Obligation Bond for Affordable Housing: Economic Impact Report**, City and County of San Francisco Office of Economic Analysis (July 2015) – This presentation describes the rationale for San Francisco’s general obligation bond proposal, the proposed use of the bond proceeds, and the estimated economic impacts.

**Local example**

- **Process and Schedule for a 2016 County Housing Bond**, Alameda County, CA – This memo describes the process that members of the County board propose to follow in order to determine the viability of a county-wide general obligation bond for affordable housing and consider various proposals.

1. See “All In Denver wants to see housing treated like critical infrastructure in Denver’s 2017 GO Bond” by Erica Meltzer in Denverite (March 16, 2017). Note that the bond package put up for a vote in November 2017 did not include any funding for affordable housing.

General obligation bonds can be used to generate funding for affordable housing trust funds. Click here to learn more about housing trust funds.