

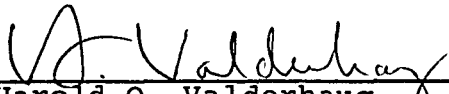
(R-86-1691)

RESOLUTION NUMBER R- 265265

ADOPTED ON MAR 17 1986

BE IT RESOLVED, by the Council of The City of San Diego, that the City Manager's recommendation as set forth in City Manager's Report No. 86-88, a copy of which is attached hereto and by this reference incorporated herein, to defer a decision on the issue of Mortgage Credit Certificates until the 1986 mortgage revenue bond allocation is received, be and the same is hereby adopted.

APPROVED: JOHN W. WITT, City Attorney

By   
Harold O. Valderhaug  
Deputy City Attorney

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Or.Dept:Rules  
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The City of San Diego

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# MANAGER'S REPORT

DATE ISSUED: February 26, 1986

REPORT NO. 86-88

ATTENTION : Committee on Rules, Legislation, and Intergovernmental Relations  
of March 3, 1986

SUBJECT : Use of Mortgage Credit Certificates

REFERENCE : IRD Report No. 85-97 and Housing Commission Report No. 85-032 CC

## SUMMARY

Issue - Should the City trade all or a portion of its Calendar Year 1986 allocation of single family housing mortgage revenue bonds (MRBs) for mortgage credit certificates (MCCs)?

Manager's Recommendation - Defer decision on the issue until the 1986 MRB allocation is received. It is anticipated that the allocation will be received in June 1986. The impact on MRBs and MCCs of current efforts at Federal tax reform may be known at that time.

Other Recommendations - None.

Fiscal Impact - None by this action.

## BACKGROUND

The State of California adopted AB 2297, which implements Federal law (Deficit Reduction Act of 1984) by authorizing the use of mortgage credit certificates (MCCs) by the State and by local government. The new legislation allows the City to trade all or a portion of its single family housing mortgage revenue bonds (MRBs) for MCCs. On October 14, 1985, the Rules Committee directed the Housing Commission and the City Manager to consider the new financing device and to report back to the Committee with their recommendations on the role MCCs might play in financing low and middle income housing in the City.

## DISCUSSION

MCCs provide recipient first-time home buyers with Federal income tax credits on the mortgage interest they pay, directly reducing their Federal income tax liability. In this way, the entire amount of Federal subsidy flows directly to the home buyers, rather than part going to the home buyers and part to investors and middlemen as in the bond program.

R- 265265

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Detailed hypothetical analyses of the use of MCCs were proposed in April 1985 by the accounting firm of Deloitte, Haskins, & Sells for the Council of State Housing Agencies and the National Association of Home Builders. These analyses show that the advantage or disadvantage of MCCs relative to MRBs can vary widely depending on the spread in interest rates between conventional housing loans and MRB tax exempt financing. (In recent months, the spread has been about two percentage points.) The analyses also show that the relative benefit of MCCs also depends on the Federal income tax liability of each prospective home buyer. (Tax liability is dependent on total income, number of wage earners, marital status, number of dependents, itemized deductions, tax shelter investments, and other factors unique to each taxpayer.) Thus, at different points in time and with respect to different single family housing developments, the choice between MRB allocations and MCCs could differ.

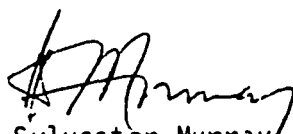
Compounding the difficulty of making a choice at this time is the fact that the Congress is considering Federal tax reform. Any of the versions currently under consideration would either eliminate MRBs and MCCs or restrict their use. Although factions of Congress are disagreeing over what tax reform should include, a compromise in the coming weeks is possible. Staff is watching these Congressional efforts closely.


The City has recently applied for a Calendar Year 1986 allocation of single family housing mortgage revenue bonds. The California Mortgage Bond Allocation Committee probably will allocate to the City of San Diego about the same amount of MRBs as in recent years (about \$50 million). It is anticipated that the allocation will be received in June 1986. The City then would have 90 days from the official date of allocation to sell the bonds or to trade all or a portion of the allocation for MCCs. It is recommended that a decision on which option the City should take be deferred until the allocation is received. Levels and trends of interest rates and buyer qualification requirements for new single family housing developments would be reviewed at that time. Even more important, the results of current efforts at Federal tax reform may be known.

#### ALTERNATIVES

1. Direct the Housing Commission to trade the City's 1986 MRB allocation for MCCs as soon as the allocation is received.
2. Direct the Housing Commission not to trade the City's 1986 MRB allocation for MCCs.

Respectfully submitted,

  
Sylvester Murray  
City Manager

  
Ben Montijo  
Executive Director, Housing Commission

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MAR 17 1986

Passed and adopted by the Council of The City of San Diego on ..... ,  
by the following vote:

Councilmen	Yeas	Nays	Not Present	Ineligible
Abbe Wolfsheimer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bill Cleator	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gloria McColl	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
William Jones	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ed Struiksma	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mike Gotch	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Judy McCarty	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uvaldo Martinez	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mayor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> VACANT

AUTHENTICATED BY:

ED STRUIKSMA  
Deputy Mayor of The City of San Diego, California.

(Seal)

CHARLES G. ABDELNOUR  
City Clerk of The City of San Diego, California.

By *Raymond L. Portocarrero*, Deputy.

Office of the City Clerk, San Diego, California

Resolution Number R- 265265 Adopted MAR 17 1986

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