

**Affordable Housing Bond
Frequently Asked Questions on City Ownership Restrictions**

1. How does the “Lending of Credit Restriction” limit the City’s actions regarding bond-financed buildings or land?

Lending of Credit Restrictions is a Constitutional provision which substantially limits the ability of the City to use general obligation bonds for housing projects that involve artificial entities. For example, many rental housing projects that serve low income tenants are eligible for federal low income housing tax credits, which can significantly reduce the cost of providing housing. However, low income housing tax credits usually require participation by an artificial entity to permit the low income housing tax credits to be sold. This participation by an artificial entity may preclude financing the housing project with general obligation bonds.

The City of Portland’s Bond counsel has concluded that Article XI, Section 9 of the Oregon Constitution largely limits City general obligation bonds to financing the portion of housing projects that are owned by the City, by another local government, or by a “natural person.” Article XI, Section 9 also precludes the City from raising money for, or loaning the City’s credit to, or in aid of, any “joint company, corporation or association, whatever” (“artificial entities”).

2. What is the City’s current policy relative to “Financial Net Position” as it applies to bond-financed buildings or land?

Financial Net Position. The City has had a persistent, negative trend in Net Position (Assets minus Liabilities) for its Governmental Activities (General Fund services, Transportation, etc.). For the most recent fiscal year (FY2015-16), Net Position as reported in the City’s Comprehensive Annual Financial Report totaled in excess of *negative* \$1.4 billion. The concern is that this trend could impair the City’s long-term fiscal health and overall credit ratings. Although there are several factors that have contributed to this trend, underinvestment in City-owned infrastructure and financial activities that result in the creation of long-term liabilities without a corresponding increase in assets are factors that have exacerbated this trend. For these reasons the Chief Financial Officer has advised the City Council to avoid entering into financial transactions that result in a mismatch between liabilities incurred and assets created.

For more information, go to [Bond Basics Presentation \(April 17, 2017\)](#) and find more information and updates on the bond at: <https://www.portlandoregon.gov/phb/71130>.