

Bay Area Housing Finance Authority

Advisory Committee

February 23, 2023

Agenda Item 8.a.

Regional Early Action Planning (REAP 2.0) Funding Programs

Subject:

Report on REAP 2.0 Funding Programs: Housing Preservation and Priority Sites Funding Guidelines and Higher Impact Transformative Grant Proposal

Background:

In July 2022, the California Department of Housing and Community Development (HCD) released the Notice of Funding Availability for its second round of Regional Early Action Planning (REAP 2.0) grants. HCD allocated \$103 million to MTC for planning and implementation projects at the intersection of climate, housing, and equity. Of this allocation, staff proposes the use of \$43 million to launch new pilot programs administered by BAHFA that would explore the strategic expansion of the agency's housing funding portfolio, including a \$15 million Housing Preservation Pilot and \$28M Priority Sites Pilot. The Commission approved staff's proposal for the REAP 2.0 formula allocation in November 2022 and submitted an application to HCD in December 2022.

In addition to its formula allocation, HCD created a REAP 2.0 Higher Impact Transformative Allocation (HIT) as a parallel, competitive effort. MTC and BAHFA, in partnership with Terner Housing Innovation Labs (Terner) and the Housing Accelerator Fund (HAF), hope to secure \$10 million in HIT program funds support a new construction technology incubator and establish a revolving fund to facilitate location-efficient, off-site affordable housing production. MTC staff submitted an application to the HIT program in December 2022 and the Commission approved its authorizing resolution in January 2023.

Housing Preservation Pilot:

If approved, the Housing Preservation Pilot would be the first in-house capital program focused on preservation of unrestricted affordable housing. The program would provide over-the-counter financing to non-profit developers and community land trusts for acquisition and rehabilitation of occupied properties to establish long-term affordability, with the goal of stabilizing at least 60 households. Funding would prioritize projects in systemically marginalized communities and near existing or planned transit infrastructure. Funded projects would result in anti-displacement benefits to existing tenants, and community-controlled projects could open pathways towards residents building equity. REAP 2.0 provides a unique opportunity to provide near-term capital funds that can achieve immediate impact and demonstrate a "proof of concept" for BAHFA that supports a potential future ballot measure. See Attachment B for draft terms and underwriting guidelines for the Housing Preservation Pilot.

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Priority Sites Pilot:

The Priority Sites Pilot would accelerate regionally significant affordable or mixed-income housing projects that leverage public land or the redevelopment of aging malls/office parks – two of the most impactful Housing Strategies in Plan Bay Area 2050. In addition to establishing a pipeline of locally-prioritized, regionally significant sites in transit-rich areas, the program would deliver predevelopment funding directly to projects that advance multiple regional goals (affordability, climate, equity, etc.) and demonstrate success factors such as local support, a clear path to entitlements, and a realistic financing plan. The program could also explore alignment with other state and regional funding sources to expedite project delivery and effectively leverage other sources of capital. Similar to the Housing Preservation Pilot, subject to any necessary BAHFA Board approvals, this program could be jointly administered by BAHFA and demonstrate the value-add of a regional approach, including the completion of large-scale projects that can deliver significant portions of jurisdictions' lower-income RHNA targets. The Priority Sites Concept Paper, available for download on the MTC/ABAG website, provides additional context for staff's preliminary design recommendations for this program. See Attachment C for draft terms and underwriting guidelines for the Priority Sites Pilot.

Higher Impact Transformative Program:

The proposed HIT program proposes to 1) fund a "Bay Area Builders Lab", a new construction technology incubator created and operated by Turner; and 2) establish the "Industrialized Construction Catalyst Fund" (ICCF), a revolving fund managed by the HAF designed to facilitate location-efficient, off-site affordable housing production. Both uses directly address one of the principal causes of California's chronic shortage of affordable housing: the high cost of construction. The Bay Area Builders Lab will accelerate infill development by incubating new technologies, products, and processes that can reduce the time and cost required for urban infill housing construction. The ICCF will fill gaps that are currently stalling the productive growth of off-site housing production, such as the need for upfront deposits that allow factories to buy materials and affordable developers to secure a guaranteed spot in the production queue. See Attachment D for a more detailed summary of the HIT grant application.

Next Steps:

Housing Preservation and Priority Sites Pilots:

- Staff will seek approval of draft terms and underwriting guidelines, as well as transfer of budgetary and programmatic authority for the Pilots from MTC to BAHFA in March 2023.
- Staff will finalize the terms and underwriting guidelines by March 31, 2023, HCD's deadline to approve evaluation criteria for suballocation of REAP 2.0 funds.
- Notice of Funding Availability will be released in spring or summer 2023, pending HCD application approval, grant agreement execution, and disbursement of funds.
- All funds must be encumbered by June 30, 2024 and spent by June 30, 2026.

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HIT Program:

- HCD is scheduled to make its HIT Program awards on or around March 31, 2023.
- If awarded, staff will request the transfer of budgetary and programmatic authority for the HIT Program from MTC to BAHFA
- BAHFA, Turner, and the HAF will proceed in program implementation pursuant to HCD requirements, with Turner and the HAF each scheduled to receive a \$5 million allocation upon completing certain milestones.
- All funds must be encumbered by June 30, 2024 and spent by June 30, 2026.

Issues:

- HCD's deadline to approve evaluation criteria for suballocation of formula REAP 2.0 funds is March 31, 2023. Terms and underwriting guidelines are subject to change until HCD has completed their review.
- The HIT Allocation is a competitive grant, so funding for the proposed HIT Program will not be confirmed until HCD announces awards.

Recommended Action:

The BAHFA Advisory Committee is requested to recommend Bay Area Housing Finance Authority approval of the Housing Preservation Pilot and Priority Sites Pilot Draft Terms and Underwriting Guidelines.

Attachment:

- A. Presentation
- B. Housing Preservation Pilot Draft Terms and Underwriting Guidelines
- C. Priority Sites Pilot Draft Terms and Underwriting Guidelines
- D. Higher Impact Transformative Grant Application Summary

Reviewed:



Alix Bockelman