
July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

Subject:

Introduction to Module 3 of BAHFA's Strategic Planning process, to explore new financing products and approaches for affordable housing while also generating a reliable revenue stream to support BAHFA's operational sustainability

Background:

From March through May 2025, staff designed a Strategic Planning process for BAHFA with direction from the BAHFA Advisory Committee, the BAHFA Oversight Committee, and the ABAG Housing Committee. The Strategic Planning process will chart a path to sustain BAHFA in the near-term so that it is positioned to advance a regional revenue measure at the next opportunity (preliminarily envisioned for 2028), and also build towards financial self-sufficiency in the medium-term.

The Strategic Planning process is structured as four modules:

- Module 1: Regional Revenue Measure
- Module 2: Funding Strategy and Financial Sustainability Plan
- Module 3: New Regional Financing Products and Approaches
- Module 4: Regional Housing Programs

This item provides an overview of work completed to date as part of Module 3.

Module 3 Overview

The purpose of Module 3 is to develop a new, small-scale regional lending program. If feasible and subject to availability of funding, this program concept would allow BAHFA to launch a new financing product(s) before a successful ballot measure, both demonstrating and testing BAHFA's potential as a public lender and creating a stable revenue stream for the agency.

BAHFA has formed a project team with the financial and development expertise necessary to vet program ideas and ultimately ensure successful program implementation. CSG Advisors has been hired to conduct market research, test viability and program design elements, and provide financial advising services. BAHFA's new Strategic Advisor, Lydia Tan, is providing program oversight and strategic guidance. Module 3 is further supported by a Technical Advisory Group of housing industry professionals, such as developers, bankers, equity investors, lawyers, academics, and local government staff. A roster of the Module 3 Technical Advisory Group is included as **Attachment B**. BAHFA staff and the consultant team are continuing to engage with a broad range of stakeholders beyond the Technical Advisory Group to ensure that a diverse set of perspectives contribute to the program design.

July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

The team has been guided by four primary objectives for the potential new program: (1) improve affordability by filling an unmet need or outperforming existing products in the marketplace, (2) generate revenue for BAHFA to support the agency on its path towards self-sufficiency, (3) serve as proof-of-concept for BAHFA's role as regional lender, and (4) incrementally grow the agency's lending capacity.

Proposed Program Concept: Bay Area Mixed-Income Financing Program

Key Criteria and Opportunities

To achieve BAHFA's objectives, several key criteria have been identified to evaluate program design options:

- **Pass a Benefit-Cost Test.** BAHFA should support only those projects that demonstrate a net public benefit over the life of the project. Public benefits can include, but are not limited to, the present value of discount to market rents, increased resources to public agencies through real estate appreciation, and higher levels of tenant disposable income that is spent within the community. Public cost is generally considered the price of foregone property taxes to the jurisdiction but could include other costs where applicable.
- **Emphasize Revenue Generation.** Seek to maximize revenue from interest, project fees, and increased property values while maintaining project feasibility. A primary goal of the program is to support BAHFA on its journey towards self-sufficiency, ensuring the agency's ability to serve its mission in the long run.
- **Promote Cost Efficiency.** Assist projects at the lowest possible cost to ensure BAHFA resources make the most impact.
- **Leverage Existing Strengths.** Build on the strengths of existing BAHFA programs, such as the successful Welfare Tax Exemption Preservation Program (WTEPP), and use in-house expertise to the greatest extent possible.
- **Be Scalable.** Ensure a program can be easily scaled up should additional resources become available to the program.
- **Fill an Unmet Need.** Where possible, support projects that may not be feasible without BAHFA's assistance or that target underserved demographics, rather than those receiving support from existing programs and subsidies.

Based on initial analysis of the program objectives and key criteria, several opportunities have emerged to further define the program concept:

- **Mixed-Income with Focus on Workforce Housing:** fill a market gap to serve the 60-80% Area Median Income ("AMI") range, cross-subsidizing with higher income units.
- **Do Not Rely Upon Low-Income Housing Tax Credits (LIHTC):** avoid delays and costs associated with highly competitive credits; do not compete against projects that require credits for deeper levels of affordability.

July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

- **Initial Focus on Acquisition/Rehab:** take advantage of current market opportunity for lower per-unit acquisition/rehab costs, while designing program to flex towards new construction when resources and market conditions allow.
- **Bond Issuer Role:** fill niche regional gap to achieve efficiencies of multijurisdictional scale and greater local accountability/mission-alignment than statewide issuers.
- **Layered Approach:** Create a flexible structure with a suite of offerings that can be combined as part of a move towards “one stop” (or at least “fewer stops”) approach and scaled over time.

Proposed Program Elements

To achieve BAHFA’s objectives within the current financing landscape and in light of BAHFA’s limited near-term resources, the proposed program would combine multiple tools to reduce the financing gap for mixed-income projects. The layered tools would include:

- **Senior Lending Assistance**
 - Tax-Exempt Bond Issuance. BAHFA can begin to offer its services as an issuer of various types of tax-exempt bonds. These tax-exempt bonds could include governmental purpose bonds, 501(c)(3) bonds, and exempt-facility bonds. The proposal is to focus initially on governmental purpose bonds and 501(c)(3) bonds, but in the longer term, BAHFA may use exempt-facility bonds where volume cap recycling is possible. These tax-exempt bonds will help eligible projects and borrowers access long-term capital at rates lower than similar taxable financing sources, thus increasing potential senior loan proceeds and reducing financing gaps. Additionally, as an issuer of governmental purpose bonds, BAHFA will add value to eligible projects as an owner, and under a 501(c)(3) bond structure as a partner with the owner.
 - Top-Loss Lending Partnership. To help serve projects for which tax-exempt bond issuance is infeasible (e.g., due to the project’s proposed ownership structure or current market conditions), BAHFA could partner with a Freddie Mac lender to create a top-loss lending program. In addition to providing the matched subordinate debt described below, such a program would likely reduce the interest rate on the Freddie Mac senior debt by 30-50 basis points (0.30-0.50%).
- **Property Tax Abatement.** Building upon BAHFA’s current Welfare Tax Exemption Preservation Program, the new proposal would involve enacting regulatory agreements necessary to achieve a property tax exemption. The reduction in annual tax burden will significantly reduce operating costs, thus increasing both income available to pay debt service and potential loan proceeds. Further, under a governmental purpose bond structure, property tax abatement could be applied to additional units above 80% AMI, to the extent that the public benefit of doing so outweighs public costs, providing deeper benefits to eligible projects.
- **Matched Subordinate Debt.** A key feature of the proposed program is for BAHFA to use its limited cash resources to match project sponsors’ investment by providing subordinate debt to close the gap between required senior debt service coverage (DSC)

July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

levels and 1.05x DSC on projects. An initial strawman proposal is for BAHFA to size the interest rate on the subordinate debt at approximately 200 basis points (2%) above the senior loan rate to adequately compensate BAHFA and the project sponsor, and to align incentives for prudent management and success through the life of the project.

- **Marketing Assistance.** BAHFA will offer Doorway Housing Portal services to help ensure low economic vacancy, thus reducing the risk of project defaults in the long term. The mixed-income nature of the projects will be marketable to a broader population than fully middle- or low-income developments that have faced challenges reaching target demographics. The Program will also promote participation by Section 8 voucher holders, where possible, to help maintain high and stable occupancy and increase operating income.

Initially, the program would focus on acquisition/rehabilitation projects that convert existing market-rate housing into one of the eligible project types. In the longer term, BAHFA could expand the program to support new construction projects as funding and market conditions allow.

The figure in **Attachment C** shows the overall structure of the proposed program and the potential timing for rollout of various elements.

The program proposal includes eligibility criteria to ensure that projects meet affordability objectives. Two types of mixed-income projects could qualify: (1) “lower-income projects” with either 20% of units restricted at 50% of AMI or 40% of units restricted at 60% of AMI, or (2) “middle-income projects” with at least 50% of units restricted at 80% of AMI. Similar to BAHFA’s current WTEPP program, all projects would carry a 55-year deed restriction and must offer rents that are at least 10% discount to market. Projects would also need to demonstrate a net public benefit via a to-be-determined formula; in its simplest form, this could require showing that cumulative rent savings for tenants exceed the forgone property taxes.

Additional vetting is underway to test program features based on variations in subregional market conditions, to validate underwriting assumptions, and to explore developer appetite for the proposed product types. As the concept is refined, BAHFA will financially model a set of impact metrics to evaluate the merits of different program design options. These impact metrics are expected to include, at minimum, (i) units financed by income category, (ii) the dollar value of financing gap reduction achieved by the program, (iii) funds leveraged, (iv) the dollar value of net public benefit, and (v) annual revenue earned by BAHFA.

Considerations

The program concept is still in development. Several issues that will affect program feasibility, design, and implementation include:

- **Fundraising:** BAHFA’s ability to offer the subordinate debt layer is contingent upon securing new resources. An advantage of the proposed structure is that even if new

July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

funds are not secured, BAHFA could still likely deliver greater affordability at lower cost by layering tax-exempt bond issuances onto the existing WTEPP. However, near-term revenue opportunities would be minimal and therefore limit the program's fulfillment of its goals.

- **Income Targeting:** Other "middle" or "workforce" or "essential" housing programs serve the 80-120% of AMI range, whereas BAHFA's current focus is 60-80% AMI. Expanding BAHFA's target income range to 100% or 120% of AMI could improve project feasibility in submarkets where such rents still present at least 10% discount to market.
- **Property Ownership:** One option for senior lending assistance is for BAHFA to issue governmental purpose bonds, which require government ownership. BAHFA could serve as the property owner, whether alone or as part of a Joint Powers Authority. This structure would enable flexibility to expand the range of incomes served to the 80-120% of AMI range, since state law related to welfare property tax exemption caps household eligibility for privately owned properties at 80% but does not have such a cap for publicly owned properties. It would also support long-term public stewardship of residential properties and be a step towards one model of "social housing." Whether to expand BAHFA's footprint into property ownership as part of a governmental purpose bond offering is a policy decision for the Board.
- **Administrability:** The benefits of different program design structures must be weighed against administrative and regulatory burdens to ensure that the program is workable for borrowers and for BAHFA. As the program concept is refined, staff and the consultant team will identify potential barriers and recommend solutions to enable swift and efficient program administration.

Next Steps

- Program testing by submarket
- Further engagement with the Technical Advisory Group and other stakeholders to test assumptions and market demand
- Adjust program terms and assumptions based on research and feedback
- Continue to seek funds to support the proposed subordinate debt component
- Build an operating model that projects financial viability of the program
- Present a refined program concept to BAHFA and ABAG Committees in early fall

Issues:

None

Recommended Action:

Information

July 9, 2025

Agenda Item 7.a.

BAHFA Strategic Planning

Attachments:

- A. Presentation
- B. Module 3 Technical Advisory Group Roster
- C. Mixed-Income Financing Program – Potential Structure and Rollout

Reviewed:



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