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January 12, 2023

Agenda Item 10.a.

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Draft Funding Programs for BAHFA Business Plan

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**Subject:**

Presentation of the draft Funding Programs of the BAHFA Business Plan.

**Background:**

BAHFA launched its business planning process (Business Plan) in 2021 with the goal of creating bold, regional solutions to the Bay Area's housing challenges. The principal means by which BAHFA and its partners will deliver effective outcomes is by deploying BAHFA and ABAG's new statutory authority to place a regional revenue measure on the ballot across all nine counties. The Business Plan, supported by a consultant team led by Forsyth Street Advisors, has three main threads of work:

- (1) The **Equity Framework**, which focuses BAHFA's Business Plan on delivery of 3P programs that prioritize equity, racial justice, and protection of communities most impacted by the region's affordability challenges.
- (2) The **Funding Programs**, which propose strong, impactful, and self-sustaining funding programs that can successfully establish BAHFA as a permanent agency that consistently achieves its 3P mission.
- (3) The **Business Plan**, which is the integrated, strategic plan inclusive of both the Equity Framework and Funding Programs that recommends best practices and phasing for BAHFA's allocation of the resources it secures, including a potential regional general obligation bond in 2024.

Staff provided updates to these Committees about progress on the Business Plan drafting in January, April and July of 2022. This presentation of the Draft Funding Programs represents a major milestone. Also appearing on the Joint Housing Committees' January 12, 2023 agenda is a separate presentation of the Draft Equity Framework.

**Funding Programs Summary:**

Following the mandate prescribed for BAHFA's work in its enabling legislation, Assembly Bill 1487 (Chiu, 2019), the Business Plan's Funding Programs for BAHFA's regional housing revenues are set forth in four sections:

- Production: New construction investments that typically leverage third-party funding and achieve beneficial housing outcomes at scale.
- Preservation: Investments in existing buildings with the goal of preventing displacement of low-income households and stabilizing communities.

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- Protections: Specific interventions aimed at keeping vulnerable residents housed and preventing homelessness, including, e.g., rental subsidies and legal assistance.
- Innovations: Investments (typically in Production) that deviate from traditional affordable housing financing structures, seeking instead to achieve faster, more cost-effective housing delivery than current funding methods.

While AB 1487 establishes similar rules for Bay Area counties, cities, and BAHFA's use of funding generated by a BAHFA revenue measure, the Funding Programs described in the Business Plan are specifically for BAHFA's use of regional funds (Regional Housing Revenues; RHR). Cities and counties will establish their funding priorities in compliance with AB 1487 in future expenditure plans submitted to BAHFA following a successful revenue measure.

All four RHR Funding Programs pursue these overarching goals:

- Integration of Equity Framework Objectives. These include, but are not limited to:
  - Delivery of housing that serves highly impacted households and communities, such as permanent supportive housing and investments in historically disinvested communities (such as Equity Priority Communities).
  - Promotion of climate and environmental justice through investments in transit-oriented projects that also employ sustainable construction and design standards.
  - Expansion of opportunities for community-based and emerging developers on projects that reflect strong community support.
- Operational Self-Sustainability for BAHFA. BAHFA must generate revenue and fees through its lending practices that will enable it to both maintain high-quality operations and reinvest in 3P projects, especially for Protections, for which funding is not readily available.
- Demonstrated Leadership Through Coordination and Streamlining. BAHFA will approach its work collaboratively, seeking to assist jurisdictions by streamlining, standardizing, coordinating, and consolidating access to financial resources and technical assistance throughout the region.
- Achieving Scale: Only by providing new financial resources, innovative investment approaches, and coordinated efforts can the region meet its housing needs: over 441,000 new housing units identified in the 6<sup>th</sup> RHNA Cycle for 2023-2031, with over 253,000 of those needing affordability below 80% of area median income.

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**Production Program Summary** *(see detailed Production Program attached as Attachment B)*

New construction affordable housing is almost always funded by stacking 4% or 9% low-income housing tax credits with tax-exempt or taxable debt and/or local or state subsidies, also known as “gap funding.” Gap funding is typically in short supply and is disbursed competitively at both the state and local levels. Since 2020, tax-exempt bond funding and 4% low-income housing tax credits are also now over-subscribed, creating a significant bottleneck at the state level – in 2021 and the first funding round of 2022, Bay Area projects’ application success rate was only 39%. The net effect of our current funding system is to increase costs through multiple and duplicative applications that take time and offer no certainty, which itself drives up costs and prevents efficient resource allocations.

BAHFA’s Regional Housing Revenue Production Program will address these issues by:

- Packaging below-market loans with gap funding, which will simplify project-level financing, reduce costs, and increase project benefits.
- Bringing additional resources to jurisdictions’ funding programs, thus enabling more projects to move through the pipeline faster.
- Pursuing additional lending programs beyond tax-credit developments, both at large and small scale, to expand the ways we finance and create more housing.

Note that by providing construction, permanent, and mezzanine loans to projects, BAHFA will generate the fees and interest it needs for operations and re-investments into more affordable housing and services.

**Preservation Program Summary** *(see detailed Preservation Program attached as Attachment C)*

Bay Area housing costs began to rise significantly in 2012 as the country emerged from the Great Recession. For many low-income households, this created the need to relocate from their existing communities to new areas with lower housing costs, which were often farther away from Bay Area job centers. Relocation in search of housing affordability strains families, fractures communities and diminishes regional economic and environmental health. To address these issues and help residents in existing buildings enjoy permanent housing affordability, BAHFA’s Preservation Programs will:

- Create a regional, coordinated source for Preservation acquisition/ rehabilitation loans, first mortgage loans, and subsidy loans.
- Support community development and wealth generation for low-income households through investments in small buildings, cooperatives, and limited equity housing.
- Ensure that buildings with long-term affordability restrictions nearing their expiration date can remain affordable for another 55 years.

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Like the Production Program, Preservation funding will generate fees and interest payments through below-market loans that will sustain BAHFA and allow for reinvestments.

**Protections Program Summary** (see detailed *Protections Program attached as Attachment D*)

The Protections activities authorized under AB 1487 include pre-eviction and eviction legal services; counseling, training and renter education; emergency rental assistance; and relocation assistance. If BAHFA pursues a general obligation affordable housing bond in 2024, it will not be able to fund those Protections with bond funds due to California Constitutional restrictions. However, California housing advocates are currently pursuing a constitutional amendment that would allow affordable housing general obligation bonds to be used for some tenant and homelessness protection investments. If this effort is successful, it may enable BAHFA to implement Protections, including homelessness prevention and other interventions, with RHR.

Regardless of the outcome of the constitutional amendment pursuit, BAHFA will provide regional leadership and advocacy, along with technical and financial support, to create regional systems and services that protect tenants from displacement and prevent homelessness. This will include:

- Facilitating regional collaboration.
- Conducting research and providing technical assistance in areas such as eviction diversion programs with demonstrated beneficial outcomes.
- Collaborating with and supporting local jurisdictions to better integrate and grow homelessness prevention programs.

**Innovations Program Summary** (see detailed *Innovations Program attached as Attachment E*)

As described earlier, it is essential that BAHFA provide leadership in financing and housing delivery and pursue new, innovative ways to better address the region's housing needs. Overarching Innovation Program goals are to expand the range of financeable projects and produce housing faster and more cost-effectively, while not sacrificing the quality of habitability. BAHFA expects to stay opportunistic and push forward new ideas that show promise. Early programs it seeks to pursue include:

- "Efficient Delivery" projects, both for permanent supportive housing in collaboration with jurisdictions able to provide operating subsidies as well as for middle-income housing. These projects will, by definition, be lower cost and target fast development timelines (approximately three years from start to finish). Projects structured in this way can be financed with low-cost debt and relatively low gap funding investments, or for middle-income housing, with debt only.
- "Affordable Unit Buy-Down", a subsidy program that will pay the cost of adding affordable housing units in market rate projects, with payments coming in when

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construction is complete. For jurisdictions with existing inclusionary requirements, this program will increase the percentage of affordable units in the project beyond what the jurisdiction requires.

- “Adaptive Re-Use”, which, by providing funding for conversion of buildings from residential to commercial, acknowledges the need to reimagine commercial districts and reinvigorate aging and obsolete malls and office parks.

**Next Steps:**

As OBI and the Business Plan consultant team solicit additional feedback on the Draft Equity Framework, Forsyth Street will continue to lead the final drafting of the Business Plan, which will include refinements of the Funding Programs and a new section on BAHFA’s operations and structure, analyzing what is required for near-term and long-term operational sustainability. The BAHFA team expects to present the full Business Plan for the Committees’ review and referral to the BAHFA Board for approval in Q4 2023.

**Issues:**

None

**Recommended Action:**

Information

**Attachment:**

- A. Presentation
- B. Production Program
- C. Preservation Program
- D. Protections Program
- E. Innovations Program

**Reviewed:**



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