

## BAHFA FUNDING PROGRAMS

### EXECUTIVE SUMMARY

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Following the mandate prescribed for BAHFA’s work in its enabling legislation, Assembly Bill 1487 (Chiu, 2019), BAHFA’s Business Plan includes Funding Programs that set forth how BAHFA will disburse its regional housing revenues. The Funding Programs are designed to address the “3Ps”: Production, Preservation, and Protections, and are presented as four programs:

- Production: Multifamily Rental Production Program: New construction investments that typically leverage third-party funding and achieve beneficial housing outcomes at scale;
- Preservation: Anti-Displacement and Preservation Program: Investments in existing buildings with the goal of preventing displacement of low-income households and stabilizing communities;
- Protections: Tenant Protections and Homelessness Prevention Program: Specific interventions aimed at keeping vulnerable residents housed and preventing homelessness, including for example, rental subsidies and legal assistance; and
- Innovation: 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 or to pilot new models for affordable housing delivery outside of traditional new construction or preservation projects.

While AB 1487 establishes similar rules for the 80% of funds that are returned to Bay Area counties and cities, the Funding Programs described herein are specifically for BAHFA’s use of the 20% of regional funds (“Regional Housing Revenues”, or “RHR”) that are retained by BAHFA. 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 new housing that serves highly impacted households and communities, such as permanent supportive housing and investments in historically disinvested communities (such as Equity Priority Communities);
  - Preventing residents, especially low-income households and those at risk of homelessness, from displacement and homelessness through housing preservation and tenant protection measures;
  - Promotion of climate and environmental justice through investments in transit-oriented projects that also employ sustainable construction and design standards; and

- Expansion of opportunities for community-based and emerging developers on projects that reflect strong community support.
- Operational Self-Sustainability for BAHFA. Collectively across its Funding Programs, BAHFA must generate revenue and fees through its lending practices that will enable it to both maintain high-quality operations and reinvest in its Funding Programs, 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 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 6th RHNA Cycle for 2023-2031, with over 253,000 of those needing affordability below 120% of area median income.

A brief summary of each of the four Funding Programs is provided below. For additional information and details related to each, see the detailed Funding Program documents that follow.

### **Production Program Summary**

New construction affordable rental 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” or “subsidy loans.” Subsidy loans are typically in short supply and are 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 Production Program will address these issues by:

- Packaging construction and/or first mortgage loans with subsidy loans to support project feasibility, which will simplify project-level financing, reduce costs, and increase project benefits;
- Bringing additional resources to local jurisdictions’ existing housing programs, thus enabling more projects to move through the pipeline faster; and

- When possible, leveraging these existing resources to create transformational scale and grow the region's new, affordable rental housing production pipeline.

By providing construction, first mortgage, and subsidy loans to projects, BAHFA will generate the fees and interest it needs for operations and re-investments into more affordable housing and protections services.

### **Preservation Program Summary**

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 maintain their housing and enjoy permanent housing affordability, BAHFA's Preservation Program 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; and
- Ensure that buildings with long-term affordability restrictions nearing their expiration date can remain affordable for another 55 years.

Like the Production Program, Preservation funding will generate fees and interest payments through loans that will sustain BAHFA and allow for reinvestments back into its Programs.

### **Protections Program Summary**

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 Protections measures with bond funds due to restrictions in the California Constitution. 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 as part of its Protections programming. In addition, BAHFA will rely on earnings that it generates from its Production and Preservation Funding Programs to be able to provide the types of services specified in AB 1487 and those that protect tenants from displacement and prevent homelessness. This will include:

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

### **Innovations Program Summary**

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. With its Innovations Program, BAHFA can pursue additional lending programs beyond tax-credit developments, both at large and small scale, to expand the ways we finance and create more housing. 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 faster development timelines (approximately three years from start to finish).
- “Affordable Unit Buy-Down”, a subsidy program that will pay the cost of adding affordable housing units in new market rate projects, with payments coming in when construction is complete. (Note that the Buy-Down program may also subsidize affordability in existing market-rate projects, but those are likely to be few in number relative to the opportunities afforded in new inclusionary projects.) 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 commercial to residential, acknowledges the need to reimagine commercial districts and reinvigorate aging and obsolete malls and office parks.

Each of the Funding Program documents included contain an overview of both the equity and programmatic objectives BAHFA aims to accomplish, as well as the specific financing products that BAHFA will provide as part of the Program. In addition, details related to how BAHFA's programs fit within the existing financing landscape, the rationale for providing the programs, and different ways in which the programs can be provided through BAHFA are included within each Funding Program's appendix.