Metropolitan Transportation Commission
Programming and Allocations Committee

February 10, 2021 **Agenda Item 3a - 21-0032**

MTC Resolution No. 4454. Bay Area Preservation Pilot (BAPP) Program Revisions

Subject: Revises several program guidelines for MTC's Bay Area Preservation Pilot (BAPP) to address deployment barriers and improve efficacy for prospective housing preservation projects.

Background: In February 2018, MTC launched the Bay Area Preservation Pilot (BAPP) program to help stabilize communities in light of regional displacement pressures. BAPP is a revolving loan fund designed to assist mission-driven developers and community-based organizations with the acquisition and preservation of unsubsidized multifamily housing located in areas with high-frequency transit service and considered affordable to low- and moderate-income renters. This action proposes to implement several changes to the program guidelines to address deployment barriers that have impeded the BAPP Fund's ability to achieve its stated goals.

Issues: For a more detailed discussion on the program and the anticipated impacts of these proposed revisions, please see the BAPP Program Revisions Memo (Attachment A).

MTC has committed $10 million to BAPP, supplemented by an additional $39 million in community development financing institution (CDFI) capital from the program fund managers, Enterprise Community Loan Fund (ECLF) and Low Income Investment Fund (LIIF), to make a total of $49 million available for acquisition loans. Since its launch, ECLF and LIIF have marketed the program to potential borrowers and have evaluated a number of prospective projects. Thus far, they have successfully closed loans for two preservation projects in Oakland, but the majority of BAPP funds have yet to be deployed due to the following barriers:

- Limited Soft Debt: Soft debt from public sources has been much more limited than assumed during the program's development, particularly outside of San Francisco and Oakland. Due to the program's 5:1 leveraging requirement, this lack of soft debt has resulted in a significant financing gap for most projects by limiting the capital that can be leveraged, and therefore the size of MTC BAPP loan.
- Limited Tenant Income: Tenant incomes of those living in evaluated properties have been 50% of the area median income (AMI) on average, significantly lower than the average 80% AMI levels originally underwritten. This reduces the debt that can be supported from CDFIs at acquisition and from permanent lenders at refinance after the BAPP loan term.
- Tax Credit Equity Limitations: Original underwriting assumed that projects would likely pursue tax credit equity through the Low-Income

Housing Tax Credit (LIHTC) program as source of permanent capital at the end of the BAPP loan term, but there is limited incentive for tax credit investors to invest in smaller-scale preservation projects at this time.

- High Development Costs: Since BAPP's launch, the fund managers have found that total development costs, including rehabilitation needs, taxes, and developer fees, are slightly higher than underwritten, only exacerbated by the impacts of COVID-19.

To address these deployment barriers, staff recommends the following revisions to the BAPP program guidelines proposed by ECLF and LIIF, based on input from the Advisory Committee that supports the BAPP program and the separate Transit-Oriented Affordable Housing (TOAH) fund:

1. Decrease the leverage ratio requirement on MTC funds from 5:1 to 3:1
2. Allocate up to $6 million of MTC's $10 million commitment for deployment as long-term forgivable debt that may remain in a project as permanent subsidy, as needed on a project-by-project basis. For ECLF and LIIF to offer these funds to borrowers as forgivable debt, MTC must restructure this portion of the fund as a grant contribution to the fund managers.
3. Increase the term of the BAPP fund from 10 years to 20 years to account for the delay in deployment and allow new loans to be offered with the maximum 10-year loan term.

Recommendation: Refer Resolution No. 4454 (Attachment D) to the Commission for approval. This resolution amends the Principles of Agreement that govern the BAPP program and authorizes the Executive Director or her designee to execute amendments to MTC's funding agreements with ECLF and LIIF to align with Amended and Restated Principles of Agreement. After approval, staff will work with fund managers ECLF and LIIF to develop the specific terms of the new forgivable debt component and re-market the program to prospective borrowers,

Attachments:
Attachment A: BAPP Program Revision Memo
Attachment B: Bay Area Preservation Pilot Loan Features
Attachment C: Illustrations of BAPP Proposed Program Revisions
Attachment D: Resolution No. 4454
Attachment E: Staff Memo on the Expanded Regional Housing Portfolio dated October 15, 2020
Attachment F: BAPP Program Revisions Presentation Slides

Therese W. McMillan

Attachment A

METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: MTC Programs and Allocations Committee DATE: February 10, 2020

FR: Executive Director

RE: Resolution No. 4454, Bay Area Preservation Pilot Proposed Program Revisions

Background

The majority of low-income Bay Area families live in unsubsidized rental properties subject to fluctuations in the speculative market, putting them at risk of displacement due to rising rent prices and the possibility of no-fault eviction. Meanwhile, the housing stock affordable to low and middle-income renters continues to fall short of the need, especially in hot real estate markets such as the Bay Area. To help stabilize communities and keep families in their homes, MTC launched the Bay Area Preservation Pilot (BAPP) program in 2018. BAPP is a revolving loan fund designed to assist mission-driven developers and community-based organizations with the acquisition and preservation of unsubsidized multifamily housing properties located in areas with high-frequency transit service and considered affordable to low- and moderate-income renters.

Early development and ongoing implementation of the BAPP program has been supported by the TOAH/BAPP Joint Advisory Committee, a working group comprised of experts in the emerging housing preservation field including mission-driven developers, community land trusts, advocates, and public agencies. MTC has committed $10 million to BAPP, supplemented by an additional $39 million in community development financing institution (CDFI) capital from the program fund managers, Enterprise Community Loan Fund (ECLF) and Low Income Investment Fund (LIIF), to make a total of $49 million available for acquisition loans. BAPP loans offer a term of up to 10 years, which allows mission-driven buyers to stabilize the rents of existing residents while they determine a financial plan to ensure the long-term affordability of the property. As initially approved, MTC's BAPP loans must be matched by all other funding sources 5 to 1 and deployed in Transit Priority Areas and Priority Development Areas. See Attachment B for more information on the approved BAPP loan features.

Deployment Barriers

Since the launch of BAPP, ECLF and LIIF have marketed the program to potential borrowers and have evaluated a number of prospective projects. Thus far, they have successfully closed loans for two preservation projects in Oakland, but the majority of BAPP funds have yet to be deployed[1] due to the following barriers:

[1] As of January 2021, the balance of remaining BAPP funds from MTC's $10M commitment is $8,173,821.50

- Limited Soft Debt: The BAPP program requires that MTC funds be leveraged with other sources of funding with a ratio of at least 5:1. Other potential funding sources includes capital from CDFIs, developer equity, and "soft debt" from public sources, which is public subsidy that has no requirement for repayment. In practice, soft debt has been much more limited than assumed during the program's development, particularly outside of San Francisco and Oakland, which are the only two cities where dedicated preservation funds currently exist. Due to the program's 5:1 leveraging requirement, this lack of soft debt has resulted in a significant financing gap for most projects by limiting the capital that can be leveraged, and therefore the size of MTC loan.
- Limited Tenant Income: A project's CDFI loan is sized based on the amount of debt that can be supported by the rental income from existing tenants. BAPP requires that 75% of units be restricted to tenants earning no more than 80% of the area median income (AMI). However, tenant incomes of those living in evaluated properties have been closer to 50% of the AMI on average. This means that to maintain affordability for existing residents, the projected rental income is significantly lower than the average 80% AMI levels originally underwritten, thereby reducing the debt that can be supported from CDFIs at acquisition and from permanent lenders at refinance after the BAPP loan term.
- Tax Credit Equity Limitations**:** Original underwriting assumed that projects would likely pursue tax credit equity through the Low-Income Housing Tax Credit (LIHTC) program as source of permanent capital at the end of the BAPP loan term, but there is limited incentive for tax credit investors to invest in smaller-scale preservation projects (less than 20 units) at this time. Developers of smaller prospective projects have indicated that they do not plan to pursue tax credits and as a result, the initial amount of BAPP debt that can be supported at acquisition is further constrained by limited exit financing.
- High Development Costs: Since BAPP's launch, the fund managers have found that total development costs, including rehabilitation needs, taxes, and developer fees, are slightly higher than underwritten. This has only been exacerbated by the impacts of COVID-19, which has resulted in higher construction costs due to the need for safety monitoring, personal protective equipment, and additional labor hours for sanitizing work areas and phasing of contractors to minimize crowding on site, particularly for tenant-occupied rehabilitation projects.

Attachment C, Figure 1 provides an illustration of the financing structure initially projected during the BAPP program development compared to the actual financing structure of prospective projects evaluated by the BAPP fund managers after program launch.

Proposed Program Revisions

To address these deployment barriers, staff recommends that the MTC Programming and Allocations Committee (PAC) refer Resolution No. 4454 to the Commission for approval. This action makes the following revisions to the BAPP program guidelines proposed by ECLF and LIIF, based on input from the TOAH/BAPP Advisory Committee:

1) Decrease the leverage ratio requirement on MTC funds from 5:1 to 3:1

2) Allocate up to $6 million of MTC's $10 million commitment for deployment as long-term forgivable debt[2] that may remain in a project as permanent subsidy, as needed on a project-by-project basis. For ECLF and LIIF to offer these funds to borrowers as forgivable debt, MTC must restructure this portion of the fund as a grant contribution to the fund managers.
3) Increase the term of the BAPP fund from 10 years to 20 years to account for the delay in deployment and allow new loans to be offered with the maximum 10-year loan term.

These revisions would address the program's current deployment barriers in the following ways:

Deployment Barrier	**Impact of Proposed Program Revisions**
Limited Soft Debt	Changing the leveraging ratio from 5:1 to 3:1 would increase a project's MTC Loan by decreasing the amount of soft debt needed as match funds. Additionally, converting a portion of MTC's BAPP funds to forgivable debt with minimal repayment requirements would further reduce or eliminate the need for projects to obtain this type of funding from other public sources. This would enable maximum geographic flexibility of BAPP funds by opening opportunities for projects in cities outside of San Francisco and Oakland where local preservation funds do not exist. Ultimately, these revisions would swiftly close funding gap for potential projects with little to no supplemental financing.
Limited Tenant Income	By increasing the MTC Loan and providing an alternative source of forgivable debt, these revisions decrease the amount of "hard debt" needed from CDFIs, which are loans that must be repaid in full by the end of the loan term and are limited by the amount of tenant rental income that can support monthly payments. This would allow BAPP funds to achieve deeper levels of affordability and thus support lower income residents.
Tax Credit Equity Limitations	Converting a portion of MTC's BAPP funds to long term forgivable debt provides an opportunity for prospective projects to access permanent financing, reducing the reliance of tax credit equity as a take-out source. This shift would be beneficial for all projects, and would be particularly helpful in unlocking small projects and collective ownership models, which do not pair well with the LIHTC program.
High Development Costs	By allowing each project to access more funding from MTC, developers can accommodate higher project costs. The proposed forgivable debt component in particular would allow developers to carry out much needed rehabilitation of properties by providing a source of permanent subsidy. Many acq/rehab projects face deferred maintenance issues that may or may not be anticipated before acquisition – having a source of permanent subsidy at the time of acquisition could allow developers to address those issues

[2] "Forgivable debt" refers to funding that is legally structured as a loan, but functionally operates as subsidy. This means that as long as the project remains compliant with affordability restrictions, interest and/or principal payments are deferred or forgiven.

	upfront or to set up reserves to address them as they arise over time.

Attachment C, Figure 2 provides an illustration of the anticipated project financing structure if both of these program revisions were adopted.

Other Considerations

Together, these program revisions would improve the certainty of deploying MTC's BAPP funds more swiftly to a more diverse set of projects across a larger geography. An additional consequence of these changes, however, could be a reduction in the total number of units to be funded by the BAPP program overall. At the time of adoption, it was anticipated that the BAPP program would facilitate the acquisition and rehabilitation of 200-400 units throughout the Bay Area. With these program changes, that number would be reduced to about 100 units, but it is important to note that number of units initially projected may have been unrealistic given current deployment challenges.

Another consideration is the additional benefit afforded by these revisions as MTC staff lay the groundwork for the Bay Area Housing Finance Authority (BAHFA). Because BAPP's CDFI fund managers are not well-positioned to continue with loan servicing and asset management beyond an initial 10-year term, MTC staff would be responsible for ongoing compliance monitoring related to the proposed conversion of funds to long-term forgivable debt. See Attachment C, Figure 3 for an illustration of the timeline for the proposed forgivable debt relative to the MTC and CDFI loans that would continue to be repaid after 10 years. The cost of staffing for this long-term compliance monitoring is estimated at 4.5% – 11% of one FTE annually; these staffing costs would only be incurred after the 10-year loan period, and could potentially be absorbed as part of much more robust future BAHFA compliance and monitoring responsibilities On balance, staff believes that this future cost is a worthwhile investment to take advantage of a unique opportunity to build in-house capacity for long-term compliance monitoring, which will be necessary when new permanent financing programs are created through BAHFA. Ultimately providing a valuable test run for similar, wider-scale preservation financing programs once a significant revenue stream becomes available through BAHFA, the proposed BAPP restructuring has been identified as an ideal near-term pilot project for the Expanded Regional Housing Portfolio and has received positive feedback from MTC and ABAG policymakers. See Attachment E for a staff memo considered at the October 2020 joint meeting of the MTC Executive Committee and ABAG Housing Committee that includes potential BAPP restructuring as one of five early stage pilot programs.

Next Steps

If referred by PAC and approved by the Commission, the proposed program revisions will be memorialized through Resolution No. 4454 (Attachment D), which amends the Principles of Agreement approved by the Commission on February 28, 2018 via MTC Resolution 4311. This action also authorizes the Executive Director or her designee to execute amendments to the funding agreements with fund managers ECLF and LIIF to reflect the Amended and Restated Principals of Agreement. Staff will then work with ECLF and LIIF to develop the specific terms of the new forgivable debt component and re-market the BAPP program to prospective borrowers.

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Therese W. McMillan

Attachment B: Bay Area Preservation Pilot Loan Features
Attachment C: Illustrations of BAPP Proposed Program Revisions
Attachment D: Resolution No. 4454
Attachment E: Staff Memo on the Expanded Regional Housing Portfolio dated October 15, 2020

Attachment B: Bay Area Preservation Pilot Fund Loan Features

Development of BAPP is being led by LIIF, the TOAH fund manager, and ECLF, a TOAH lender, in close partnership with a working group comprised of experts in the emerging housing preservation field including mission-driven developers, community land trusts, advocates, and public agencies[1] to envision and structure the preservation finance tool seeded with MTC's $10 million investment.

BAPP will offer a medium-term loan product up to 10-years that addresses a specific financing gap in the housing preservation and production system. Once a property is acquired using a BAPP loan, developers will have up to 10 years to stabilize the property making sure residents are not displaced and also determine a financial plan to ensure the long-term affordability of the property. The loan will play the critical role of providing financing needed to quickly acquire a property, and the loan will cover finance acquisition costs as well as carrying costs such as life and safety repairs and reserves. Beyond 10 years, developers will secure Low-Income Housing Tax Credits (LIHTC) and/or other existing sources of affordable housing financing at the local, state, and federal level to ensure long-term affordability. Acquisitions financed through BAPP will leverage other capital sources to achieve MTC's required 5:1 leverage ratio.

Loan Capital: approximately $49 million (with additional $11 million developer equity contribution)

Project type: occupied properties, e.g. multi-family rental, co-ops

Project Size: 4+ units

Rent Restrictions: 75% of units affordable to households at 80% AMI

Term: Up to 10 years

Eligible Borrowers: non-profit developers or joint venture partnerships

Rehab Needs: limited rehab

Real Estate Exemption: meet the criteria

Oversight: occupancy/ management plan

Leverage: 5:1 (includes $11 million developer equity contribution)

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[1] Working Group members include representation from: Association of Bay Area Governments, East Bay Asian Local Development Corporation, California Housing Partnership, City and Country of San Francisco, City of Oakland, Contra Costa County, MidPen Housing, Mission Economic Development Agency, and the Northern California Land Trust.

Attachment C: Illustrations of BAPP Proposed Program Revisions

Figure 1: Illustration of Projected Financing Stack vs. Actual Financing Stack Based on Prospective BAPP Deals

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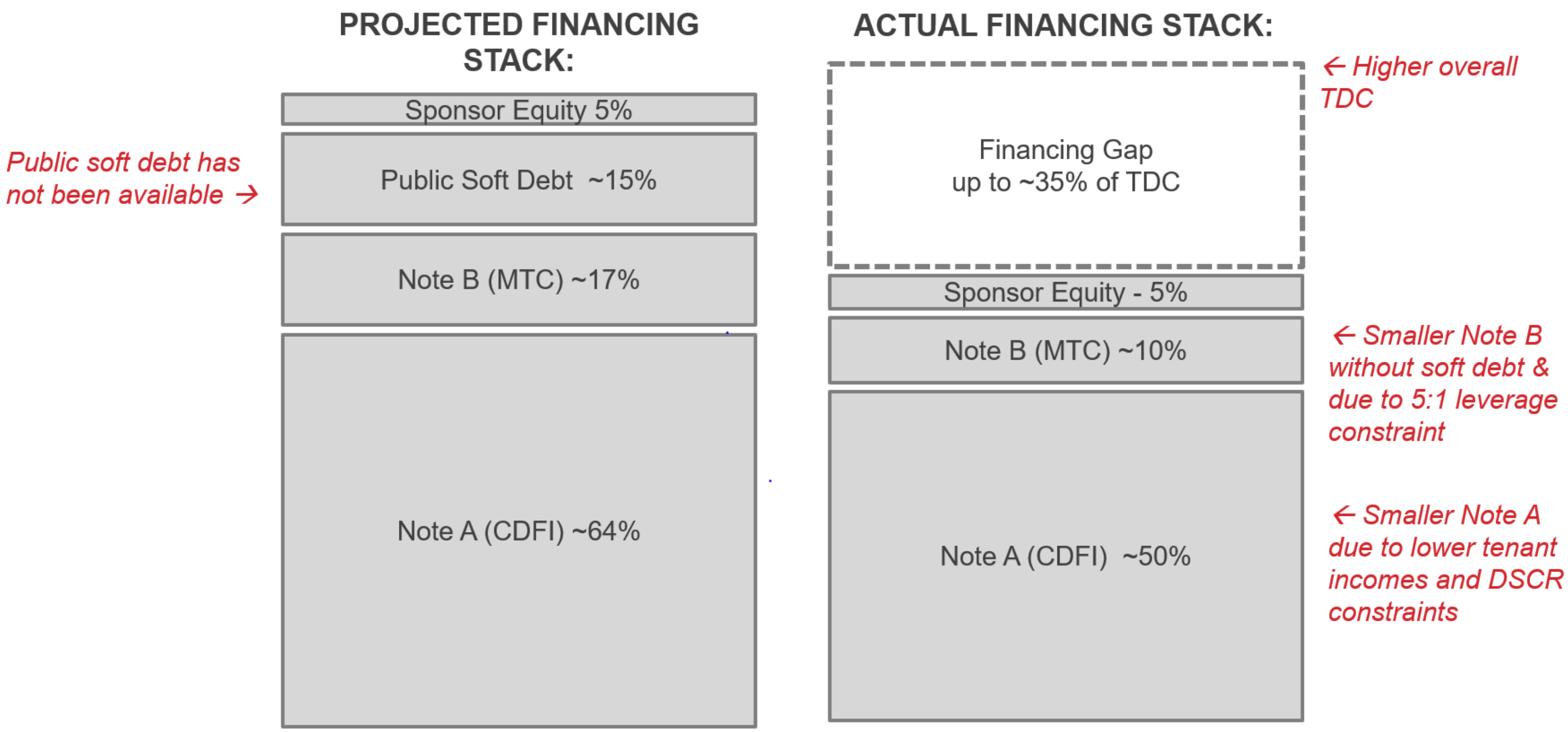
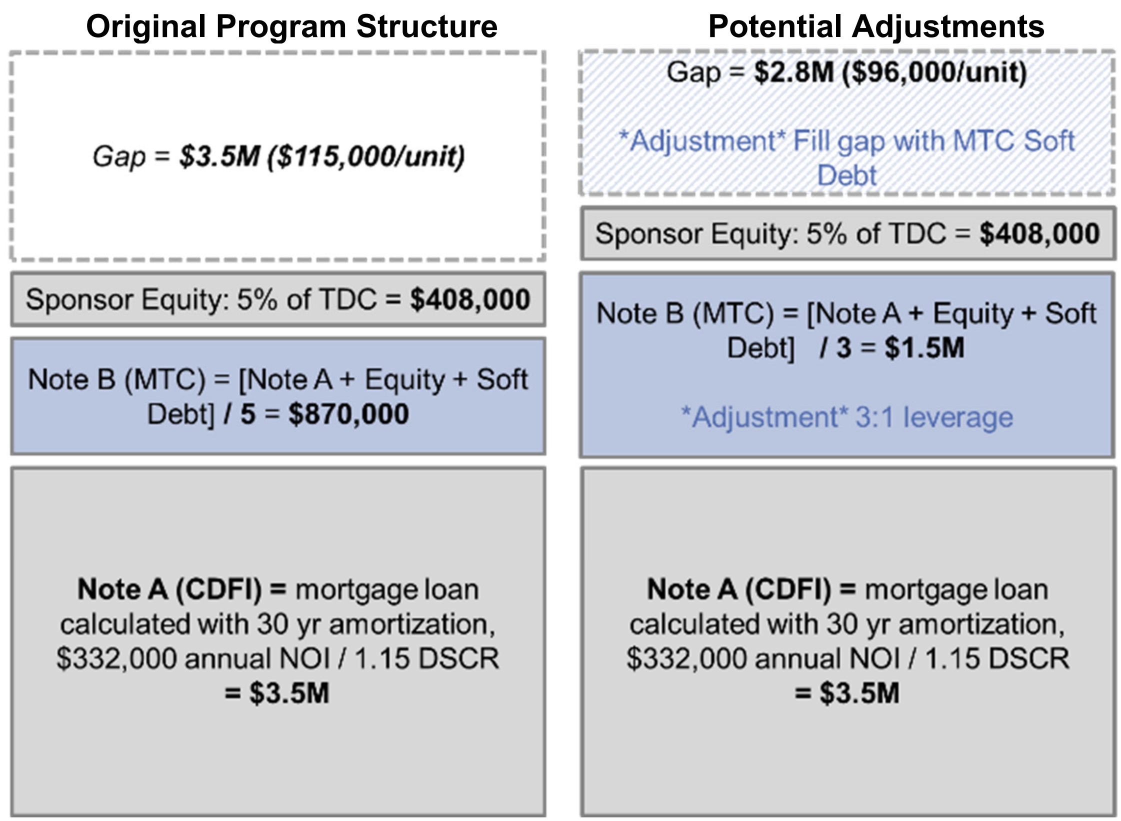


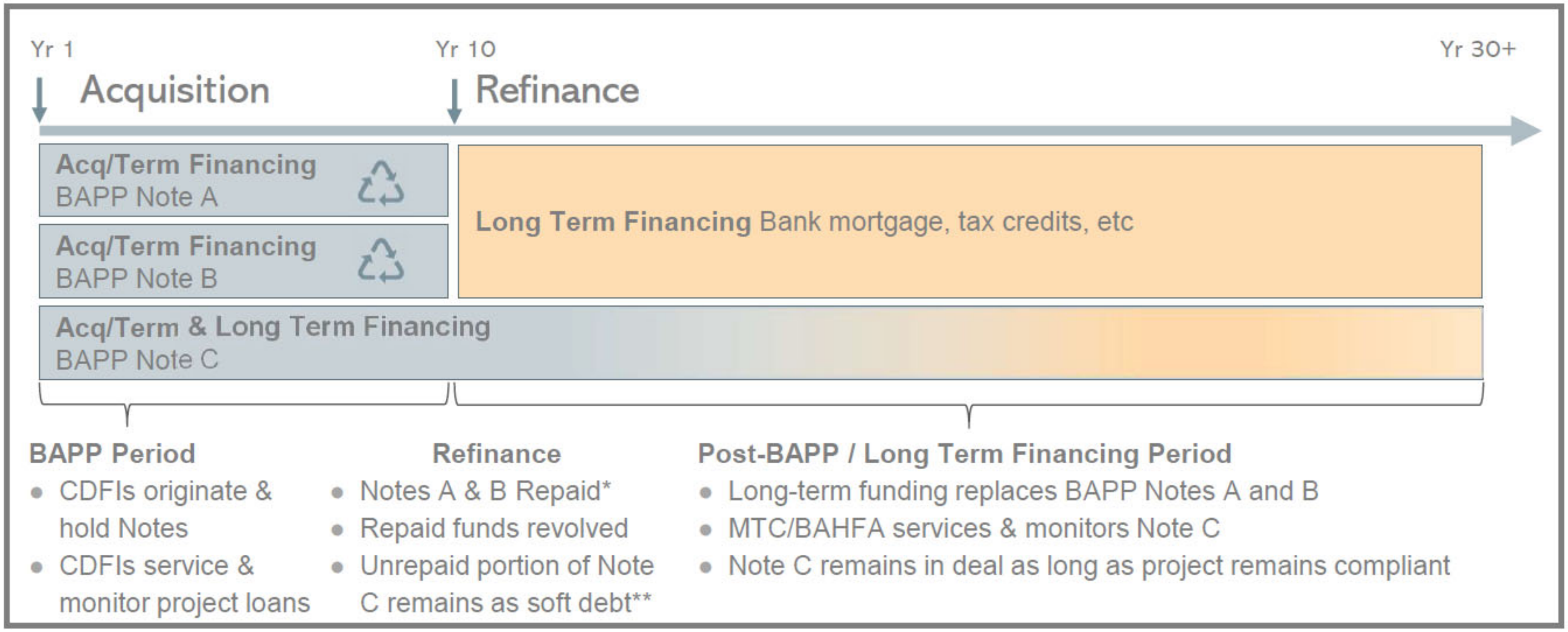
TCD: Total Development Costs
Note B: MTC Loan from $10M pot
Note A: CDFI Loan from $39M pot
DSCR: Debt Service Coverage Ratio

Figure 2: Illustration of Original Program Structure vs. Structure if Both Program Revisions Adopted (Assuming Typical 30-Unit Deal)



MTC Soft (Forgivable) Debt: Proposed Permanent Subsidy from $6M pot
Note B: MTC Loan from remaining $4M pot
Note A: CDFI Loan from $39M pot

Figure 3: Timeline of BAPP Loan if portion of MTC funds are converted to soft debt



*Note C may be partially repaid depending on availability of refi proceeds

** "Soft Debt" defined here as: Debt for which interest is collected on a residual receipts basis (ie, dependent on available cash flow after other debt service and property expenses), and which may be forgiven / retained indefinitely if project meets affordability restrictions and/or other compliance covenants

Note C: Proposed Permanent Subsidy from $6M pot
Note B: MTC Loan from remaining $4M pot
Note A: CDFI Loan from $39M pot

Date: February 24, 2021
W.I.: 1611
Referred by: PAC

ABSTRACT

Resolution No. 4454

This resolution amends and restates the Principles of Agreement that govern the Bay Area Preservation Pilot Fund (Fund) and authorizes the Executive Director or designated representative or designee to execute amendments to the funding agreements with fund managers for the Fund, to align with the Amended and Restated Principles of Agreement.

The resolution includes the following attachments:

Attachment A – Bay Area Preservation Pilot Amended and Restated Principles of Agreement
Attachment B – Bay Area Preservation Pilot Fund Managers

Further discussion of this action is contained in the Programming and Allocations Committee Summary Sheet dated February 10, 2021.

Date: February 24, 2021
W.I.: 1611
Referred by: PAC

RE: Amendment of the Bay Area Preservation Pilot Fund Principles of Agreement

METROPOLITAN TRANSPORTATION COMMISSION

RESOLUTION NO. 4454

WHEREAS, the Metropolitan Transportation Commission (MTC) is the Regional Transportation Planning Authority for the San Francisco Bay Area pursuant to Government Code §§ 66500 *et seq*.; and

WHEREAS, MTC and the Association of Bay Area Governments (ABAG) support transit oriented development through the One Bay Area Grant and Priority Development Area Planning grant programs; and

WHEREAS, MTC and ABAG adopted the Final Blueprint for Plan Bay Area 2050, which includes a strategy to acquire homes currently affordable to low- and middle-income residents for preservation as permanently deed-restricted affordable housing; and

WHEREAS, MTC adopted Resolution 4311 establishing the Bay Area Preservation Pilot (BAPP) Fund, which authorized MTC to invest $10 million in a revolving loan fund for the acquisition and protection of homes in Priority Development Areas and Transit Priority Areas currently affordable to low-income residents to help preserve affordability in the region; and

WHEREAS, the BAPP Fund managers have marketed the program to potential borrowers and have evaluated a number of prospective projects since the launch of the program in 2018; and

WHEREAS, deployment barriers have impeded the BAPP Fund's ability to achieve its stated goals, thus necessitating several changes to the program guidelines, which are reflected in the Amended and Restated Principles of Agreement outlined in Attachment A; and

WHEREAS, the Amended and Restated Principles of Agreement outlined in Attachment A will result in a substantial public benefit to the region's economic and social structure by facilitating preservation projects that establish long term affordability for low-income Bay Area families living in unsubsidized rental properties and protect them from the risk of displacement due to rising rents and the possibility of no-fault eviction; now therefore be it

RESOLVED, that the Principles of Agreement that govern the BAPP Fund are hereby amended, as reflected in the Amended and Restated Principles of Agreement outlined in Attachment A, and that the Executive Director or designee is authorized to enter into amendments to the agreements with the Fund managers listed in Attachment B to reflect the Amended and Restated Principles of Agreement.

METROPOLITAN TRANSPORTATION COMMISSION

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Alfredo Pedroza, Chair

The above resolution was entered
into by the Metropolitan Transportation
Commission at a regular meeting
of the Commission held in San Francisco,
California, and at other remote locations,
on February 24, 2021.

Amended and Restated Principles of Agreement
Bay Area Preservation Pilot Fund

The Commission adopts the following Amended and Restated Principles of Agreement to establish and maintain the Bay Area Preservation Pilot Fund, which is a program that will be used as a tool to acquire and protect homes currently affordable to low-income residents that are currently available on the market. These Amended and Restated Principles of Agreement will govern two funding agreements MTC has entered into with Low Income Investment Fund (LIIF) ($5 million) and Enterprise Community Loan Fund, Inc. (ECLF) ($5 million), contributing $10 million to the Bay Area Preservation Pilot Fund (the Fund). These Amended and Restated Principles of Agreement are intended to replace and supersede those certain Principles of Agreement adopted by MTC on February 28, 2018. The funding agreements with LIIF and ECLF will be amended in accordance with these Amended and Restated Principles of Agreement after approval by the MTC Commission on February 24, 2021.

1. MTC entered into agreements with LIIF ($5 million) and ECLF ($5 million) to contribute $10 million to the Fund via LIIF and ECLF, which agreements may be modified or amended from time to time in accordance with their terms.

2. The Fund commenced in 2018 and will operate for twenty years from the date of inception subject to any agreed upon extension of the Fund maturity ("Fund Maturity").

3. MTC made its contribution of $10 million (the "MTC Contribution") to the Fund after the funding agreements were signed and approved by the Commission on February 28, 2018; $6 million of the MTC Contribution will take the form of a grant to ECLF and LIIF (the "MTC Grant Contribution") to be deployed to borrowers as forgivable debt, the remaining $4 million of MTC's contribution shall be in the form of subordinate debt (the "Subordinate Debt Portion").

4. The Fund is managed by LIIF and ECLF, both not-for profit entities. For the avoidance of doubt, the Fund is not a separate legal entity and is instead the program through which LIIF and ECLF deploy the funds contributed by MTC.

5. All loans from ECLF or LIIF using the MTC Contribution (the "Fund Loans") will be made to projects in Transit Priority Areas (TPAs) or Priority Development Areas (PDAs) and will target households at and below 80% Area Median Income.

6. A 3:1 funding leverage on the Subordinate Debt Portion of the MTC Contribution will be achieved across the overall Bay Area Preservation Pilot Fund program (vs. project by project).

7. LIIF and ECLF have adopted a business plan that establishes the Fund's priorities and serves as a guide for the Fund's operations, financial structure, underwriting criteria, and evaluation.

8. LIIF and ECLF will certify compliance with each organization's underwriting guidelines and provide MTC with summary reports of the Fund's progress against the business plan. MTC will not participate in the selection of specific projects.

9. The Fund program managers (LIIF and ECLF) will use standard accounting controls and MTC will have the right to review all financial reports of LIIF's and ECLF's activities in respect of the Fund.

10. No representative from MTC will participate in the Fund in any paid capacity. This provision shall not inhibit MTC from providing ongoing monitoring of affordability restrictions related to forgivable debt deployed from the MTC Grant Contribution after a project exits the Fund.

11. MTC is in the subordinate position for repayment of the Subordinate Debt Portion during the life of the Fund and at Fund Maturity. As such, after LIIF and ECLF are repaid in full by their borrowers, any balance remaining on MTC's Subordinate Debt Portion will be returned to MTC at Fund Maturity, and during the life of the Fund through Fund Maturity, any balance remaining on the MTC Grant Contribution will be revolved by ECLF and LIIF to originate loans that support the preservation of affordable housing in the Bay Area through the Fund. At Fund Maturity, ECLF and LIIF will use commercially reasonable efforts to use any balance remaining on the MTC Grant Contribution as each sees fit in furtherance of their collective charitable missions of supporting affordable housing and capacity building of its borrowers. ECLF and LIIF agree to revolve the MTC Grant Contribution until Fund Maturity in order to deploy these funds to borrowers as forgivable debt, as contemplated hereunder.

12. MTC staff will provide annual BAPP updates to the Commission or appropriate Committee.

Date: February 24, 2021
W.I.: 1611
Referred by: Programming and Allocations

Attachment B
MTC Resolution No. 4454

Bay Area Preservation Pilot Fund Managers

Fund Managers	Amount
Low Income Investment Fund (LIIF) $5	$5 million
Enterprise Community Loan Fund, Inc. (ECLF)	$5 million
Total	**$10 million**

ASSOCIATION
OF BAY AREA
GOVERNMENTS

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Memorandum

TO: ABAG Housing and MTC Executive Committees DATE: October 15, 2020

FR: Executive Director

RE: Update on Expanded Regional Housing Portfolio

Background

In June, the ABAG Executive Board and the Commission approved an initial strategic framework for an Expanded Regional Housing Portfolio (see attachment). This emerging regional initiative will provide a comprehensive, data-driven regional housing strategy to support local jurisdictions and other partners in addressing the Bay Area's chronic housing affordability crisis across all "3 Ps": protection of tenants from displacement, preservation of existing housing, and production of new homes. As a collaboration between ABAG, MTC, and the recently formed Bay Area Housing Finance Authority (BAHFA),[1] the Expanded Regional Housing Portfolio will draw upon the full range of authorities and tools available at the regional level to pursue solutions at scale.

The initial strategic framework included a three-phase implementation plan. Phase 1 focused on planning for future activities, establishing components of the governance infrastructure for the portfolio, and identifying funding opportunities to resource anticipated work. This memo reports on the progress achieved during Phase 1 and proposes an approach for Phase 2, which is oriented towards developing and launching several pilot projects.

Phase 1 Progress Report

Phase 1 of the Expanded Regional Housing Portfolio included a three-month work plan. During this period, all key tasks have been completed or substantially advanced, including the following:

Support Regional Housing Committees

- Formed the new ABAG Housing Committee, which held its inaugural meeting in July.
- Activated the BAHFA Board, which held its first meeting in late June.
- Engaged with members of the BAHFA Interim Advisory Committee for feedback and technical assistance related to research on potential pilot activities.

[1] By statute, the governing board for BAHFA is comprised of the same members as the MTC Commission, and MTC/ABAG staff serve as staff for BAHFA. References to "BAHFA" in the balance of this memo reflect this relationship between BAHFA and MTC.

Expanded Regional Housing Portfolio Business Plan

- Secured $500,000 to support development of the Business Plan through a public-private partnership model, including an ABAG contribution of up to $400,000 from the Regional Early Action Planning Grants (REAP) allocation from HCD.
- Developed the scope of work for the Business Plan with input from a variety of stakeholders across the 3Ps.
- In the near future, staff will release a Request for Proposals to secure consultant support for the Business Plan. Staff anticipates selecting a consultant in early 2021.

Track Federal and State Housing Efforts

- Monitored state and federal legislation and budget processes for housing-related issues.
- Staff provided housing briefings to joint ABAG/MTC Legislative Committees as needed. Due to COVID-related budget challenges and Congressional stalemate, no new funding opportunities advanced at the state or federal levels over the summer.
- Staff will collaborate with key regional and statewide stakeholders to identify potential priorities for the next state legislative session.

Explore and Pursue Partnership Opportunities

- Engaged with a range of philanthropic and private sector entities. One potential opportunity is the "Partnership for the Bay's Future,[2]" a regional collaborative launched with the support of the San Francisco Foundation, the Chan Zuckerberg Initiative, the Ford Foundation, Local Initiatives Support Corporation, Facebook, Genentech, Kaiser Permanente, the William and Flora Hewlett Foundation, the David and Lucile Packard Foundation, the Stupski Foundation, and Silicon Valley Community Foundation.
- Engaged with staff at other public agencies and stakeholders across the Bay Area to understand the needs of local jurisdictions and explore potential partnerships.
- Identified five new value-add initiatives that could serve as pilot projects to launch Phase 2 of the implementation plan (more detail on the pilots provided below).

Transition to Phase 2: Strengthen Regional 3Ps Capacity to Successfully Implement Future Capital Resources

Based on the research conducted during the last three months, staff has developed a proposed approach to transition to Phase 2. The approach seeks to secure new revenue to invest in pilot projects that will strengthen regional capacity across the 3Ps. As such, Phase 2 will lay the foundation for the ultimate goal of the Expanded Regional Housing Portfolio to be achieved in Phase 3, once significant new capital resources are secured: transformative, systems-level change in housing supply and stability across the Bay Area.

As an intermediary step, Phase 2 activities are designed to achieve three near-term goals:

1. Make a meaningful impact on housing and homelessness in the Bay Area;

[2] More information available at www.baysfuture.org.

2. Establish a proof of concept for a coordinated regional housing strategy that will inspire investment in more ambitious future programs, such as a future regional ballot measure; and
3. Incrementally build capacity and expertise – both within the regional agencies as well as in local housing departments – to ensure that significant future capital resources can be deployed efficiently and effectively.

Expanded Regional Housing Portfolio and Local Governments: Complement and Fortify
As the regional housing portfolio is expanded with new activities, it is critical to recognize the indispensable role of local governments, especially given their ground-level view of housing instability and their authority over land use decisions. However, many local governments struggle with significant capacity challenges in the housing sector. With the loss of redevelopment, most jurisdictions in the Bay Area do not have a housing department at all. The role of the Expanded Regional Housing Portfolio vis-à-vis local governments is to ***complement and fortify*** their efforts, supporting increased access to technical expertise and attracting new resources to advance local projects and programs that further regional goals.

To facilitate relationship-building across jurisdictions and develop a space for shared learning, ABAG and BAHFA staff will begin to convene local housing staff on a quarterly basis. The convenings can also serve to identify longer-term technical assistance needs that the regional agencies could deliver once new resources are secured. The regular convenings will aim for participation from all relevant local staff, with particular attention to counties and cities that would receive a direct allocation of funds from a regional ballot measure.

This activity could yield multiple benefits across the region, including:
- Strengthen cross-jurisdictional relationships
- Identify and disseminate best practices and decrease duplicative work
- Increase regional understanding of local housing decisions and programs
- Develop the foundation for a strong partnership between BAHFA and local housing staff to ensure swift and impactful deployment of future regional housing funds

Launch Pilots that Build Regional Capacity
The Expanded Regional Housing Portfolio presents a critical opportunity to increase capacity and grow housing implementation expertise at ABAG and BAHFA. The early-stage pilot projects could enable the regional agencies to build in-house capacity across all 3Ps, including affordable housing finance, regulatory compliance, affordable housing preservation, and tenant protection programs. The pilots also present an opportunity to expand new data systems to track and analyze housing data at a regional level to enable data-driven policy and funding decisions. The pilot projects described below are designed to incrementally build regional staffing capacity and expertise, as well as technological infrastructure, so that BAHFA is ready to allocate transformative capital resources with the speed and scale that the problem merits.

Pilot 1: Regional Affordable Housing Application Platform ("Doorway")

Need: The process for lower-income residents to access deed-restricted affordable homes is complex and uncoordinated. Time-strapped residents must submit separate (usually paper) applications to each individual housing development. Jurisdictions seeking to develop local preferences in tenant selection typically do not have the technology to swiftly implement policies in accordance with fair housing rules.

Approach: San Francisco launched a city-wide, coordinated affordable housing search and application platform (DAHLIA) that centralizes all available affordable housing opportunities. This platform is widely recognized as a success. Several jurisdictions have begun to expand the platform to other parts of the region through an initiative called "Doorway." Bay Metro could partner with Doorway to further expand this platform.

Impacts:
- Ease the administrative burden on housing-seekers and property managers.
- Overcome persistent equity barriers to affordable housing that favor those with time and skills to navigate the complex existing system.
- Facilitate development and deployment of local preference policies that can target available housing resources to achieve racial equity goals.
- Develop robust data on the housing needs of various populations and geographies to inform regional funding priorities.

Pilot 2: Affordable Housing Pipeline Database

Need: To comprehensively address the regional affordable housing crisis, it is critical to develop a reliable pipeline of affordable housing projects and identify the funding gap for projects. Moreover, the current financing system for affordable housing is complex and uncoordinated and requires developers to piece together financing from many sources.

Approach: Create an affordable housing pipeline that includes units in all stages of development. This will require primary data collection from public and private sources, including state funding programs, local jurisdictions, community development finance institutions, and developers.

Impacts:
- Case making for new affordable housing funding by quantifying the financing gap.
- Increase the impact of existing affordable housing funding by improving efficiencies in the affordable housing finance system.
- Inform funding priorities for future capital resources.
- Greater coordination and management of regional affordable housing developments, which may lead to a regional queue for tax credits and bonds that could further increase efficiencies and cost-savings.

Pilot 3: Strengthen Regional Acquisition and Preservation Programs

Need: Preservation strategies are critical tools to break a displacement pattern all too common in the Bay Area: speculative acquisition of an aging building, eviction of the existing residents, renovation of the units, and then renting or selling the property to higher-income new residents. This pattern simultaneously displaces primarily black, indigenous, and people of color while also reducing the housing stock affordable to lower-income people. The threat of speculative displacement has only increased during COVID -- threatening a repeat of the 2008 foreclosure crisis, now in the multifamily sector.

Approach: Explore a potential restructure of the Bay Area Preservation Pilot (BAPP). This revolving loan fund seeded by $10 million in capital from MTC has achieved limited impact due to shifting market conditions. Successfully redesigning this fund could serve as a proof of concept for BAHFA's regional preservation mandate. Additionally, staff will leverage ABAG's Bay Area Regional Energy Network (BayREN), which offers rebates, grants, and technical assistance to lower utility costs in aging apartments, potentially resulting in economic feasibility of some preservation projects that otherwise may not pencil.

Impacts:

- Stabilize communities, especially lower-income communities and communities of color, by ensuring that the existing housing stock remains permanently affordable.
- Build capacity so that preservation becomes a more common strategy among affordable housing practitioners and agencies.
- Provide opportunities for lower-income communities and communities of color to build wealth through innovative models (land trusts, limited equity coops, etc.).

Pilot 4: Regional Homelessness Prevention System Design

Need: Roughly 850,000 households in the Bay Area with extremely low incomes are just one emergency away from losing their homes and eventually ending up on the streets. While every Bay Area County faces homelessness, there is no regional, coordinated homelessness prevention system in the Bay Area. Instead, homelessness prevention as well as homelessness services are typically operated at the county or city level -- and most city/county offices are so overwhelmed responding to their existing unhoused population that they do not have a comprehensive local homelessness prevention system.

Approach: The Regional Impact Council, convened by All Home with participation by nearly a dozen ABAG and BAHFA Board and staff members, is engaged in a multi-year, "blue-ribbon" effort to advance bold solutions for homelessness. This multi-sector effort presents a partnership opportunity to help build regional consensus and identify appropriate roles and responsibilities. One concept that is being considered in this process is to design the model for a regional homelessness prevention system. This could include a standardized assessment tool as well as uniform data collection and system evaluation, which could be woven into the existing homelessness services ecosystems in several pilot jurisdictions.

Impacts:

- A coordinated, regional homelessness prevention system that can efficiently deploy flexible resources and inspire the investment of significant new public and private resources that match the scale of the problem.

- Create a pathway towards ending homelessness in the Bay Area, rather than just managing it. Build towards a future where homelessness is a rare, brief, and non-recurring condition.

Pilot 5: Strengthen Rental Assistance Network and Disseminate Best Practices

Need: Tenant protection programs are an upstream, cost-effective strategy to enable residents to remain in their homes. Currently, there is acute need for enhanced tenant protection programs as pre-COVID displacement pressures are exacerbated by the economic fallout from the pandemic, with thousands of renters in the Bay Area at risk of immediate displacement upon the expiration of eviction moratoria. There are few regional initiatives that address the problem at scale or that can provide standardized data across jurisdictions. For example, while many jurisdictions and organizations have rental and mortgage assistance funds, there is no regional network that can facilitate development of best practices nor are there regional standards for eligibility criteria, data tracking, or outcome evaluation.

Approach: Develop a regional network of rental and mortgage assistance providers to ensure efficient deployment of eligible local, state, and federal COVID relief funds. This could involve regular convenings of local government and nonprofit providers, developing standardized regional best practices, and facilitating region-wide data collection and evaluation. This approach would dovetail with the regional homelessness prevention system (see above).

Impacts:
- Maximize the impact of public and private resources to prevent displacement of Bay Area residents, especially people of color and other systematically marginalized groups that bear the brunt of the dual threats posed by COVID-19 and the displacement crisis.
- Case making for significant new federal COVID-relief funding by developing region-wide data that quantifies the need.

Next Steps
Staff anticipates publishing a "Concept Paper" for the Expanded Regional Housing Portfolio in November to package the content in this report for a public audience. Throughout the fall and winter, staff will support ABAG and BAHFA leadership in fundraising efforts alongside other public and private sector partners. In early 2021, staff expects to recommend a consultant for the Business Plan for approval, to initiate the convenings of local housing staff, and to soft launch several of the pilot projects pending fundraising outcomes. As an ongoing task, staff will collaborate with stakeholders to monitor state and federal legislative and funding opportunities and brief the Committees as appropriate.

Therese W. McMillan

Attachment:

Memo on Initial Strategic Framework for Expanded Regional Housing Portfolio (approved by the Executive Board on June 18, 2020 and the Commission on June 24, 2020)

Bay Area Preservation Pilot

Proposed Program Revisions

Programming and Allocations Committee

February 10, 2021

METROPOLITAN TRANSPORTATION COMMISSION

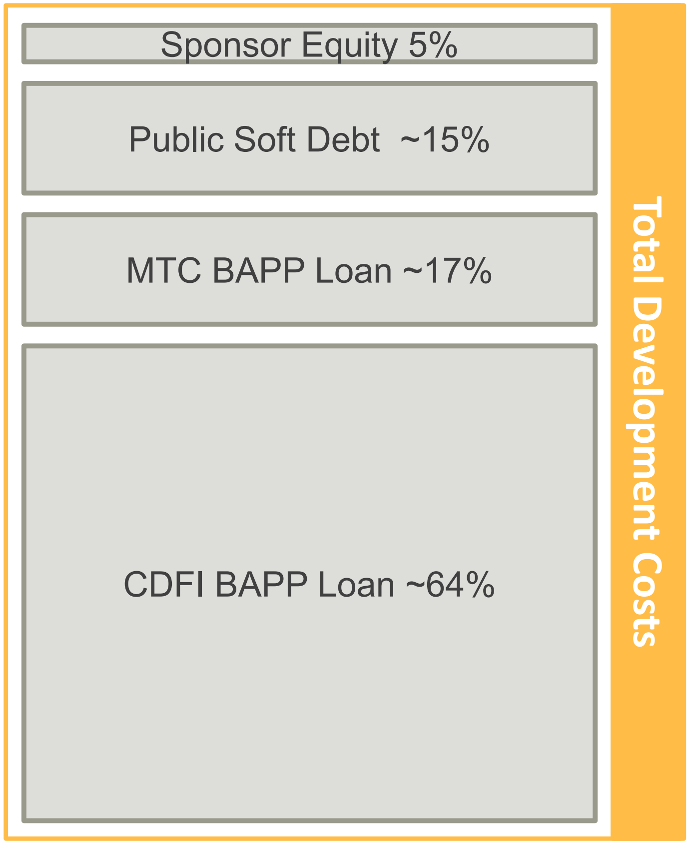
BAPP Program Background

- Launched in 2018 in response to heightened displacement pressures on low- and moderate-income residents
- Revolving loan fund for the acquisition and rehabilitation of market housing by mission-driven organizations to establish long-term affordability
- Managed by Enterprise Community Loan Fund (ECLF) and Low Income Investment Fund (LIIF)
- Total fund is $49MM
  - Seeded by $10MM of MTC OBAG2/Exchange Funds
  - Supplemented by $39MM of CDFI capital from ECLF and LIIF

Key Loan Features

- Must be in a PDA or TPA
- Loan term up to 10 years
- Leveraging ratio of 5:1 (4:1 for projects <10 units)
- 75% of units restricted to 80% AMI

PROJECTED FINANCING STACK



Deployment Barriers

- Limited soft debt from public sources outside of Oakland and San Francisco
- Tenant incomes limited to 50% AMI on average
- Tax credit equity is not feasible permanent take-out source for smaller projects
- High development costs, including rehab needs, taxes, and developer fees

Projected vs. Actual Financing Structure

PROJECTED FINANCING STACK

Sponsor Equity 5%

Public Soft Debt ~15%

Public soft debt has not been available →

MTC BAPP Loan ~17%

CDFI BAPP Loan ~64%

ACTUAL FINANCING STACK

Financing Gap
up to ~35% of
Total Development Costs

← Higher overall Total Development Costs

Sponsor Equity - 5%

MTC BAPP Loan ~10%

← Smaller MTC Loan without soft debt & due to 5:1 leverage constraint

CDFI BAPP Loan ~50%

← Smaller CDFI Loan due to lower tenant incomes to support debt

Proposed Program Revisions

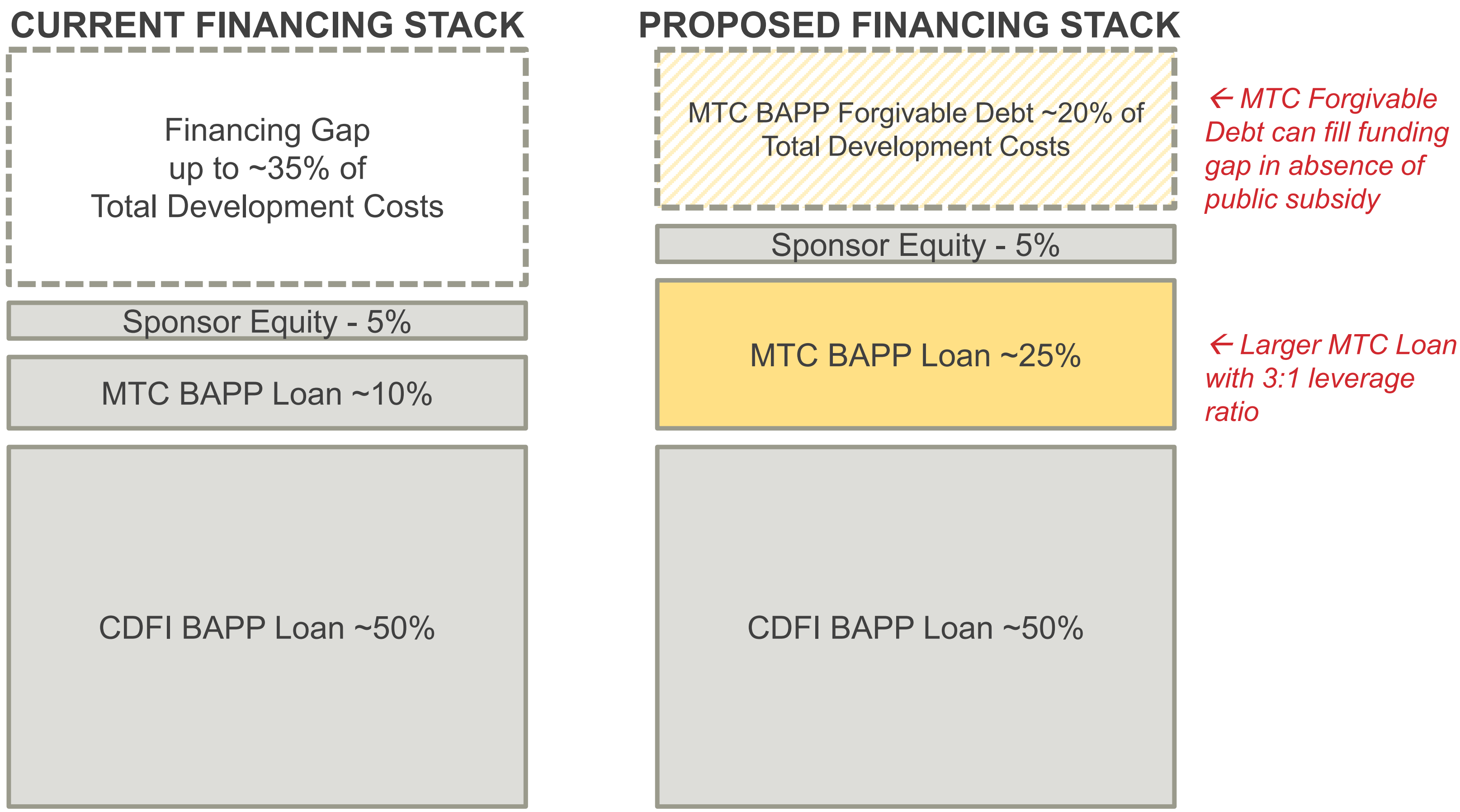
Decrease leveraging ratio from 5:1 to 3:1

➡ Increase MTC BAPP Loan per project

Convert up to $6MM of MTC's $10MM fund to forgivable debt

➡ Fill funding gap in the absence of public subsidy

Current vs. Proposed Financing Structure



Anticipated Impacts

- Swiftly deploy funds amidst heightened displacement risk
- Maximize geographic flexibility of funding outside of Oakland and San Francisco
- Serve lower income residents through deeper affordability
- Improve the diversity of viable projects, including small sites and collective ownership models
- Create opportunity to fund rehabilitation needs unanticipated at acquisition

Other Considerations

- Total units preserved would be reduced from original projection of 200-400 units to approx. 100 units
- MTC staff would be responsible for long-term compliance monitoring in connection with new forgivable debt component
  - Staffing cost is 4.5-11% of 1 FTE after initial 10-year term
  - Provides opportunity to build internal capacity in preparation for larger scale BAHFA financing programs

Next Steps

1

Commission Action to Amend Principles of Agreement

2

Amend Funding Agreements with CDFI fund managers

3

Develop terms for new MTC BAPP forgivable debt component

4

Remarket revised program to potential borrowers

Thank you

For more information contact:

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