
November 8, 2023

Agenda Item 9.a.

BAHFA's Business Plan Operations and Sustainability Chapter

Subject:

Report on Part III of BAHFA's Business Plan: Operations and Sustainability

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's statutory authority to place a regional revenue measure on the ballot across all nine counties. The Business Plan consists of three sections:

- (1) The **Equity Framework**, which focuses BAHFA's Business Plan on delivery of 3Ps programs (Production, Preservation and Protections) that prioritize equity, racial justice, and protection of communities most impacted by the region's affordability challenges. The ABAG Housing Committee unanimously recommended approval of the final draft of this section at its October 11, 2023 meeting, and the BAHFA Board adopted it on October 25, 2023.
- (2) The **Funding Programs**, which propose strong, impactful, and self-sustaining funding programs that will enable BAHFA to achieve its 3Ps mission. The ABAG Housing Committee unanimously recommended approval of the final draft of this section at its October 11, 2023 meeting, and the BAHFA Board adopted it on October 25, 2023.
- (3) The **Operations and Sustainability Chapter**, which sets forth the management and program operations necessary to establish BAHFA as a permanent, self-supporting regional finance agency able to provide financial products essential to meet the Bay Area's affordable housing needs.

Together, these three components of the full **Business Plan** will provide a comprehensive, integrated strategy for BAHFA's operations and for its allocation of resources, including the affordable housing general obligation bond proposed for the November 2024 ballot.

The Operations and Sustainability Chapter of the Business Plan is presented here with a focus on general principles. The goal of this presentation is to secure the guidance necessary to prepare a final version for future approvals. Staff expect to present the full, integrated Business Plan for final approval in early 2024.

Operations & Sustainability Chapter: Key Assumptions and Near-Term Planning

Certain critical conditions that will impact BAHFA's program implementation and operations as it plans to issue bonds beginning in 2025 are today unknown. These include:

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- The amount of the proposed affordable housing regional bond (projected at \$10 billion up to \$20 billion).
- The availability and competitiveness of traditional affordable housing financing sources, such as tax-exempt bonds issued by the California Debt Limit Allocation Committee (CDLAC) and funding from the California Department of Housing and Community Development (HCD).
- The total number of bond issuances the region can accommodate, which will largely be a function of available leveraged funding from CDLAC.
- Other market conditions, such as interest rates.

BAHFA will work with its financial advisors, MTC's Treasury Department, and direct recipient jurisdictions over the next year to resolve as many of these unknowns as possible. For example:

- Polling currently underway will help determine what bond value to present to voters in November 2024.
- BAHFA staff will work with jurisdiction housing staff in the near term to determine the value of the first bond issuance and the cadence of subsequent bond issuances, based upon pipeline data.
 - Note that all 9 counties are not required to draw their bond allocations in lockstep: counties with larger, faster-moving pipelines may draw bond funds individually or with other counties similarly situated.
- The availability of leveraged funding is a function of timing, and BAHFA will incorporate those conditions into its planning in communication with jurisdictions.

Notwithstanding critical unknown funding conditions, BAHFA and the Business Plan consultant team have made reasonable assumptions to advance BAHFA's operations and sustainability planning, while incorporating flexibility into program design. Current assumptions include:

- A successful \$10 billion general obligation bond.
- 3-5 total bond issuances over a 10-15 year period.
 - As stated above, jurisdictions may move more quickly if their pipeline accommodates more funding sooner.
- BAHFA's Administrative fees set according to legislative requirements, as are jurisdictions.
 - Supporting BAHFA's increased capacity with user/service fees through Year 10-15 (depending on the number of issuances).
- BAHFA's lending products through Years 10-15 will include project subsidies, construction loans and permanent loans, for both Production and Preservation projects.

Long-Term Goals and Planning

BAHFA's lending program will generate interest revenue and fees. By setting aside a portion of this revenue annually, and pairing it with pledged permanent and performing loans, BAHFA can create the collateral necessary to secure additional lending proceeds from the capital markets

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for ongoing project needs across the region – replicating successful strategies developed by the New York Housing Development Corporation and other well-established housing finance agencies. With this expanded access to lending capital, BAHFA will capture the interest rate “spread”, i.e., the difference between the rate at which BAHFA borrows money and the rate at which it lends. Currently, banks capture significant amounts of money on the spread through their Bay Area affordable housing project loans, all of which is profit to them. As BAHFA assumes the role of a specialized housing mortgage lender, interest earned will no longer be shareholder dividends but instead will be reinvested by BAHFA as project subsidies and community-serving program funding.

BAHFA's early successes will evolve into additional financial capacity and the ability to serve the Bay Area with increasingly advantageous products. They also will establish BAHFA's credibility among state and federal policy makers, enabling BAHFA to use its financial role to advance better rules and regulations regarding tax credits, tax-exempt bonds, and HUD and FHA programs – ultimately benefiting not just BAHFA but also the local governments in the Bay Area.

Administration

With a successful bond measure, BAHFA anticipates growing its administrative capacity in a way that is commensurate with the increased volume and complexity of the work. BAHFA expects to utilize third-party consultants to fill discrete needs to remain lean and nimble in terms of staffing. The extent to which BAHFA continues to rely on consultants over time will be a function of their cost-effectiveness.

BAHFA's future capacity includes:

- Oversight Administration
 - Oversight to ensure financial sustainability, accountability, and strong communication with BAHFA's governing boards and stakeholders throughout the region.
 - Responsibility for review and posting of BAHFA's and counties' annual expenditure plans and associated reports.
 - Advancement of strategic business planning to support complementary policies and programs at the federal, state and local levels.
- Real Estate Lending & Project Management
 - Notice of Funding Availability (NOFA) and term sheet development, loan originations, collaboration with all direct-allocation jurisdiction housing staff.
 - Project underwriting and shepherding projects through approvals processes.
 - Loan closings and coordination with internal parties and external lenders/investors.
 - Construction monitoring.
 - Project close-outs.

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- Provision of underwriting assistance to jurisdictions that may request it, including creation of template budgets, checklists and loan documents.
- Asset and Risk Management
 - Fiscal management of loan repayments and asset investments.
 - Regulatory and asset compliance monitoring and reporting.
- Finance & Treasury
 - Implementation of key financial systems during start up.
 - Management of bond issuances, cash flow, and debt repayment.
 - Oversight of BAHFA's financials, cash management and reserve investments.
- Accounting, Loan Servicing & Budgeting
 - Management of construction draws, project accounting, and progress reporting.
 - Annual auditing.
 - Working with Asset Management and Finance, including ongoing revenue and expense management.
- Legal
 - Real estate and financial transactions.
 - Regulatory compliance.

The future capacity needs identified above will be additive to the work currently ongoing in BAHFA, including for the Doorway Housing Portal, anti-displacement programs, Preservation and Priority Sites programs, and data analysis, among other activities.

In addition, BAHFA's expanded capacity will continue to rely on multiple MTC Sections to deliver the work, including Human Resources, Technology Services, Legislation and Public Affairs, Office of General Counsel and Facilities and Contracts.

Draft Financial Model and Self-Sustainability

As stated above, BAHFA's future revenue and expenses will be impacted by certain market conditions that change over time. Relevant variables include the number of bond issuances, interest rates, and the availability of leveraged financing from state and federal sources. BAHFA's future revenues will also be impacted by the policy direction established by the Boards, including BAHFA's goals, investment priorities, and the types and mix of financial products deployed (e.g., the number of first mortgage and construction loans BAHFA makes, in addition to subsidy loans).

To assist with long-range planning within this context, staff and the consultant team have developed a draft financial model to project estimated cashflow over a 10-15-year period. The draft financial model uses the Business Plan's Funding Programs as a set of building blocks for the financial products that BAHFA will deploy, allows for some degree of "togglng" between BAHFA priorities as identified in the Business Plan, and applies certain market assumptions based on extensive data gathering and research across all nine Bay Area counties. To account for the many uncertainties that are outside of BAHFA's control, the draft financial model was stress-tested for a variety of disbursement scenarios, ranging from an accelerated scenario

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wherein bond funds are drawn over three issuances to a more modest-paced scenario where bonds are deployed over five issuances.

The preliminary estimates from the financial model show a clear path for BAHFA to achieve its long-term sustainability goals. Staff estimate that after fully expending bond funds, BAHFA will have annual net revenue of approximately \$10-17 million and will have accrued a cumulative surplus on the order of \$150-\$165 million. These projected results held steady across the stress-tested scenarios, with the accelerated expenditure scenario achieving these estimated results in roughly 10 years whereas the modest-paced scenario achieved them in roughly 15 years. As such, the stress-tested draft model shows that in a range of expenditure scenarios, BAHFA can achieve financial self-sufficiency.

The draft financial model outputs also demonstrate that with an appropriate balance of project investments, BAHFA can achieve self-sufficiency while also prioritizing funds for projects supporting those most in need. Assuming a \$10 billion bond, the total unit count expected to be produced and preserved with BAHFA's financial assistance is approximately 3,700 – 4,000, with the range reflecting factors such as how swiftly funds are deployed and projected project costs. In each scenario, homes affordable to extremely low-income (ELI) and very low-income (VLI) households constitute approximately 44-45% of BAHFA's new construction funding – matching the Regional Housing Needs Allocation (RHNA) target of 45% for ELI and VLI housing as a share of housing at or below market rates. This projected unit count only considers units directly funded by BAHFA with its 20% of bond funds; when combining BAHFA's direct funding with the 80% of bond funds that will be administered by counties and direct allocation cities, the estimated total unit count is 35,000 to 40,000 assuming a \$10 billion bond (the estimated unit count doubles to 70,000 – 80,000 for a \$20 billion bond).

Conclusion

The elements presented here for the Operations and Sustainability Chapter of BAHFA's Business Plan seek to allow BAHFA to provide immediate benefits for the entire Bay Area through efficient deployment of general obligation bond funds and close collaboration with jurisdictions. Even during the initial period, BAHFA will be situated as a specialized mortgage lender with the mission of adding value to every county's affordable housing program.

By making a well-tailored and balanced portfolio of loans to Production and Preservation developments, and by carefully managing administration, BAHFA expects to strengthen its balance sheet and expand its services over time. This second phase will build upon early successes to secure new loan proceeds from capital markets and reinvest earned revenue into projects, all without continued taxpayer support. The stress-tested, draft financial model indicates that BAHFA, given its regional scale, can achieve self-sufficiency while also meeting the Equity Framework goal to prioritize support for residents with the greatest need. From the beginning and with increasing impact over time, BAHFA will grow into a new resource for the Bay Area's affordable housing finance ecosystem that currently does not exist.

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Next Steps and Decision-Making Timeline

Subject to direction from the Joint Housing Committees and the Boards, staff anticipate scheduling presentations for additional information gathering through December 2023, culminating in spring 2024 with Committee and Board action on a resolution to place the regional affordable housing bond on the November 2024 ballot alongside adoption of the full Business Plan.

November-December 2023

- Further guidance on BAHFA's Operations and Sustainability Plan

January – June 2024

- Approval of BAHFA's full Business Plan
- Approval of BAHFA's Regional Expenditure Plan
- Resolution to place bond on county ballots and associated documents

Post-Bond (2025)

- Funding Guidelines for BAHFA and jurisdictions
- Loan Term Sheets and Underwriting Guidelines

Issues:

None

Recommended Action:

Information

Attachments:

- A. Presentation

Reviewed:



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