

Date: March 1, 2015
To: ABAG Administrative Committee
From: Duane Bay, Assistant Planning & Research Director
Subject: **Regional Housing Program**

Background

The Regional Housing Program staff report for the 2014 Administrative Committee planning retreat summarized the affordable housing challenge and ABAG's response as follows.

“The need for affordable housing is one of the most significant challenges to implementing Plan Bay Area’s proposed land use pattern and equity goals. Over the past several decades, housing production in the Bay Area has not kept pace with demand, contributing to high housing costs. The recent economic recovery has highlighted the lack of affordable housing options, as housing costs have increased sharply in many of the areas of the region with the greatest access to jobs and amenities, leading to the potential displacement of lower income households.

“ABAG is working with regional and state agencies, legislators, housing and business advocacy organizations, and others to identify and promote policy changes and new funding sources dedicated to providing local jurisdictions with the flexibility and resources needed to meet unique local housing needs in each community. The three primary focus areas of the housing work program are to (1) facilitate development of new sources of funding to finance creation and preservation of affordable housing; (2) encourage coordination among agencies that impact housing planning, production and affordability; and (3) promote legislation that supports the Bay Area’s housing goals.”

This summary remains applicable today, one year later. The elaboration of these points is largely applicable as well, and is available for reference in *Attachment 1, 02-27-14 Regional Housing Program Memo* (the original attachments to the memo are not included). The 2014 staff report goes on to identify more than a dozen planned ABAG work program activities, all of which advanced to closure or were ongoing by design. The status of each is presented in *Attachment 2, 2014 Housing Program Accomplishments*.

This year, because a recapitulation of the situation, the challenges, and ABAG’s general response strategies would be repetitive, the staff report focuses on a few key activities, most of which offer opportunities for direct involvement of Board members and Delegates.

Signature Projects

The priorities featured below show potential for significant positive impact on the current Bay Area housing situation and leverage ABAG's unique capacity to lead innovation:

1. Amend Housing Element law and/or regulations to incentivize effective local strategies
2. Support expansion of work proximity housing programs regionally
3. Facilitate acquisition/rehabilitation/conversion, a cost-effective, multi-benefit strategy
4. Promote local adoption of sustainable/resilient retrofitting programs
5. Design a sustainable/resilient acquisition/rehabilitation/conversion pilot program
6. Support enabling legislation

These signature projects, described in more detail below, will be complemented by additional projects and on-going programmatic activities in legislation, Priority Development Area (PDA) implementation, and open-data development, all of which are presented in *Attachment 3, 2015 Housing Focus*.

1. Amend housing element law: Work to amend Housing Element law and/or regulations to incentivize a broader range of local housing strategies without diminishing requirements to plan adequate housing production.

Local governments, working through private sector partners, have employed numerous effective strategies to increase the supply of open-market affordable housing and deed-restricted affordable housing that are not recognized under current Housing Element law, regulations, and interpretation by California Department of Housing and Community Development (HCD). For example, the following are not fully recognized as production of affordable housing:

- a living unit in an assisted living or skilled nursing facility that frees up an existing home elsewhere;
- an acquisition/rehab project that converts a dilapidated small apartment building to permanently affordable housing; and
- various local programs and policies that make housing more affordable such as home-buyer assistance loans, tenant based rental assistance or rent control.

The full spectrum of best-fit local solutions is broad. Reform will require comprehensive consideration as there are many technical complexities and political trade-offs.

Housing Element law has been amended more than 25 times in the last 15 years, resulting in a patchwork. A constellation of factors bodes well for more comprehensive progress this legislative session: HCD is reconvening a Housing Element Working Group after a ten-year hiatus, leadership in the legislature and HCD are showing strong support for tackling housing issues, and the similar though more narrowly focused 2012-2013 Housing Element Focus Group to streamline review was

a success.

Particular actions for 2015 include: Secure ABAG representation on Housing Element Working Group; continue active participation in California Association of Local Housing Finance Agencies; support consistent State legislation if/as opportunities arise; consider a Bay Area pilot of “both and” performance measurement that uses separate progress measures, one for production of new housing, and one for increasing deed-restricted affordable housing by any means, not just new construction.

2. Establish a regional fund for work proximity housing loans: Facilitate expansion of work proximity housing loan programs region wide.

In short, and speaking generically, a PDA-based work proximity loan would provide down-payment assistance to residents who are buying a home in a PDA (this gives them transit access to work and helps address economic exclusion from PDAs) or who work in a PDA and are buying a home within a given distance of their work (this assures a short commute and helps address economic exclusion near PDAs). ABAG could collaborate to assemble a regional fund that would provide matching funds to existing down-payment assistance programs operated by local and subregional housing trust funds (that fulfill State criteria and eligible for State funding) to supplement loans they originate that meet work proximity program criteria.

A regional work proximity loan fund project will respond to three opportunities at once. First, there are many down-payment assistance loan programs in the Bay Area operated by cities, counties, subregional housing trust funds, and by some school districts. Some of these explicitly include live/work proximity in eligibility criteria for their loans, for example, Napa County’s Work Proximity Housing program and Housing Endowment and Regional Trust of San Mateo County’s Opening Doors program. However, the practice is not wide-spread and certainly not often linked directly to PDAs per se. Given the potential for such loans to partially address de facto income-based exclusion of moderate-income households from ownership in PDAs, there is an opportunity to regionalize the work proximity concept.

Second, there is an opportunity to create options for burdened existing down-payment assistance loan programs to streamline program administration. It has always been difficult to operate small homebuyer loan programs efficiently. Loss of redevelopment agency funding not only crimped municipal programs’ primary source of capital, it made it more difficult to pay for administration. Some jurisdictions terminated their programs while others, acting in their capacity as housing successor agencies, still manage legacy portfolios of outstanding loans, probably totaling well over \$20 million region wide. Legislation was proposed last year to encourage and support consolidation of programs into administrative units with sufficient scale, while retaining adequate city control, but to date there is no comprehensive coordinated effort among program operators to address this challenge. Convening a technical advisory group for the proposed work proximity loan project would establish a forum for existing program operators to collaborate. The project would also provide immediate benefits to by augmenting their limited loan capital.

Third, in late 2014, FAN announced a new down-payment assistance program. The launch was relatively well attended but many attendees expressed concerns about its viability and regional impact because of its limited capitalization of \$400,000 and the fact that the \$15,000 typical loan size was too small to stand alone, yet wasn't designed to layer efficiently with other program loans. Program implementation is on hold as FAN deals with other administrative priorities. Launching a regional work proximity loan program, following a collaborative approach to program design, could be an early opportunity to advance this strategy.

Particular actions for 2015 could include: convening an *ad hoc* technical advisory committee of existing program operators and their technical consultants; bringing back a feasibility study to the ABAG Board.

3. Facilitate housing acquisition/rehabilitation/conversion projects: When we look for opportunities to generate regional co-benefits from local land use decisions, we tend to focus on development and redevelopment. Yet most of the housing that will be in the Bay Area fifty years from now exists today. A regional consensus is building that acquisition/rehabilitation/conversion—buying and refurbishing older, relatively affordable rental properties, especially in PDAs, then securing their long-term affordability with non-profit ownership and/or affordability covenants—is an underutilized strategy with great promise for substantial positive impact.

A memorandum included in the packet for consideration by the Administrative Committee a year ago, *Attachment 4, Acquisition/Rehab as a Plan Bay Area Implementation Strategy*, makes the case for the many benefits of this strategy, especially with respect to mitigating displacement in PDAs. A final report expected next month from pilot projects conducted in three different PDAs in San Francisco under the auspices of the HUD-funded Regional Prosperity Plan Consortium should yield useful field-testing data. Notwithstanding a compelling case for public benefit and a growing body of applied expertise and numerous success stories region wide, the number of acquisition/rehab projects remains fairly small. One indicator that there are underlying problems that limit applicability of this strategy is that a long-standing, dedicated source of over-the-counter (non-competitive) federal funding for housing rehabilitation (4% low-income housing tax credits) is chronically underutilized.

Among the impediments to utilization, other than those that apply equally to almost all affordable housing development, are that (1) few jurisdictions earmark their limited affordable housing funds for this strategy, in part due to (2) the State not fully recognizing this strategy as housing production, and (3) technicalities tax-credit regulations render only a fraction of potential projects financially viable for use of tax-credit financing, such that (4) many large developers of affordable housing find new construction more financially viable for a variety of technical reasons, while (5) many smaller non-profit developers find it difficult to take on the greater operational risks inherent in rehabilitation. The proposed 2015 focus of this signature project would be to address the first three impediments directly, which could in turn increase project viability.

Particular actions for 2015 could include: encourage jurisdictions that have or are developing dedicated revenue sources for affordable housing to earmark a portion for acq./rehab. projects; support current legislation AB 35 (Chiu) to earmark more State funds and to remove technical barriers to use of tax-credit financing programs, even though the primary focus of AB 35 is preservation of existing affordable housing rather than acq./rehab. *per se*; work with HCD to reduce barriers to “counting” acq./rehab. as affordable housing production (See Project #1 above).

4. Promote Sustainable/Resilient retrofitting programs: Promote local adoption of existing financing programs that encourage and enable retrofitting that can simultaneously save energy, save water, save lives in earthquakes, save residents’ money and significantly reduce post-disaster displacement and recovery impacts.

Making the region’s existing housing stock safer and more efficient is a key strategy for increasing resource conservation and for minimizing unnecessary public cost and personal hardship during recovery from inevitable natural disasters. In California there are a variety of funding sources to make homes more sustainable and hazard resilient. Loan, grant, and rebate programs are set up and administered for unique improvements, but in general these programs are not integrated, often not even coordinated. Consolidation of efforts can yield economies of scale that enable better financing mechanisms as well as other benefits:

- Energy retrofits that conserve gas, electricity and water generate household utility cost savings that can help finance seismic retrofits in addition to the conservation measures
- Seismic retrofits protect energy retrofit investments from damage in future earthquakes
- Seismic retrofits prevent the damage of homes, reducing future embedded emissions (emissions during the mining, manufacturing, and construction of a home) from being generated to replace damaged homes
- A home that uses fewer resources is less reliant on fragile infrastructure systems likely to be damaged in hazard events, making the home habitable following an event, and accelerating regional disaster recovery because people can stay in the Bay Area
- The stakeholders for each type of household improvement are the same (home owners, contractors, city inspectors, etc.) providing opportunities to streamline outreach, preparation and installation, and to combine education and training programs
- Improvements made simultaneously only displace or inconvenience residents once

Some of the existing financing resources Bay Area residents can leverage to make their homes more sustainable and resilient are highlighted in *Attachment 5, The Sustainable Resilient Home*. The proposed signature project would develop a program around the safe/smart/affordable concept and promote local implementation.

These activities have evolved since last year's March Administrative Committee meeting where members advocated for a regional effort to improve housing safety and resilience. Staff has secured project support to provide technical and implementation guidance to ABAG member cities that will result in improved, sustainable neighborhoods.

Particular actions for 2015 could include: writing a case study about San Francisco, Oakland and Berkeley, first to implement varied resources; leveraging existing educational and training workshops by BayREN and ABAG to introduce the idea of combining sustainability and resilience efforts and programs; use the update of local hazard mitigation plans to incorporate sustainability measures, and work resilience measures into the implementation of existing climate action plans; conducting a feasibility analysis for how BayREN, could be instrumental in mainstreaming the program regionally.

5. Design a sustainable/resilient acquisition/rehabilitation/conversion pilot. This proposed signature project isn't so much a separate project as a proof of concept that programs three and four outlined above can be applied simultaneously to the same building upgrade.

Particular actions for 2015 could include: work with local jurisdictions and non-profit housing developers to identify acquisition/rehabilitation projects in the planning stage that would make suitable pilot case studies, then conduct and document the pilot.

6. Support enabling legislation. The legislative priorities adopted by ABAG Legislative and Government Organization Committee already encompass any legislation necessary to implement the signature projects highlighted above. For reference, the legislative priorities related to housing are restated below, but because the legislative process is dynamic specific bills are not discussed.

Legislative priorities related to housing include:

- Housing Element reform, e.g. housing credits for assisted living, acquisition/rehabilitation, and work housing investment/housing trust funds;
- Support for housing infrastructure
- Reauthorization of Proposition 30, currently set to expire in 2018, with a request that a percentage of future revenue be set aside for funding senior affordable housing.
- Resources and incentives for planning, infrastructure and services to assist local governments, as well State and federal legislation establishing innovative financing and project delivery mechanisms
- CEQA/Entitlement Efficiency

Discussion

Staff solicits feedback on the signature projects in particular, as well as any of the other planned 2015 housing related activities.

Question: Do these projects, as intended, "show potential for **significant positive impact** on the current Bay Area housing situation and **leverage ABAG's unique capacity to lead innovation**"?

Attachments:

- *Attachment 1, 02-27-14 Regional Housing Program Memo*
- *Attachment 2, 2014 Housing Program Accomplishments*
- *Attachment 3, Housing Focus for 2015*
- *Attachment 4, Acquisition/Rehab as a Plan Bay Area Implementation Strategy*
- *Attachment 5, The Sustainable Resilient Home*