



*This proposal is conceptual, meant to introduce the concept and stimulate discussion.*

## **Draft Proposal for Formation of a Regional Housing Trust Fund**

The Bay Area cannot meet the housing challenges that threaten our regional wellbeing without a dramatic increase in dedicated public funding for affordable housing. As State and Federal funding sources have largely dried up, new local and regional funding sources have become crucial in filling in the void. The creation of a flexible regional source of funding could help expand the resources available for affordable housing while complementing and maximize the effectiveness of existing local housing funds.

Developing a regional funding source will require cultivation of a broad-based regional political constituency for preserving and developing housing that is affordable. Constituency development will require regional institutional leadership and capacity—a role that ABAG is well positioned to play, given its relationship with local governments and housing stakeholders throughout the region. ABAG’s strengths in research, stakeholder negotiation, technical assistance and advocacy at the state level will also be critical for the organizational and program development of a regional housing trust fund.

### **What is a housing trust fund?**

By classic definition, housing trust funds (HTFs) have a sustained dedicated source of funds, specific dedicated uses of funds, and public oversight appropriate to a defined geographic service area. By this definition, there are at least 76 HTFs in the Bay Area, run by cities, counties, Joint Powers Authorities (JPAs) or public/private non-profits.<sup>1</sup> These HTFs administer housing grants and loans that use existing funds and funding streams, and many of them also work to develop program innovations to attract new funding sources. The Bay Area also benefits from the good work of several well-known region-wide funds (e.g., TOAH) and Community Development Financial Institutions (CDFIs) that are effective but are not technically housing trust funds, because they are either private or they do not have a sustained funding source.

Currently the Bay Area has no regional housing trust fund. To avoid duplicating existing efforts or competing with local funding sources, there must be a viable, sustainable niche for a regional housing trust fund (RHTF) that can **raise substantial new capital** for grants and loans to address critical housing challenges, and do so in ways that leverage the work of our many excellent HTFs and CDFIs. The purpose of this brief paper is to outline salient issues related to formation of an RHTF—from uses to sources to mechanism—and propose next steps.

### **How might a RHTF use its funds?**

The following uses and characteristics are believed to be high-impact and insufficiently addressed by existing funding sources:

### *Proposed Uses*

- Acquisition / rehabilitation / conversion (ARC) of older rental housing to long-term affordability
- Mobilehome park preservation or ARC to resident co-op or non-profit ownership
- Integrated retrofits that secure seismic safety, water and energy conservation, and long-term affordability
- Silent-second, shared-appreciation homebuyer assistance loans for work-proximity and in PDAs<sup>2</sup>
- Accessory Dwelling Unit (ADU) catalyst<sup>3</sup>
- Landbanking housing sites identified in Housing Elements

### *Proposed Use Characteristics*

- Make grants and very-long-term pay-as-you-can loans, rather than or in addition to the short-term or medium-term loans available through most private CDFI programs
- Use regional housing trust funds to collateralize loan guarantees for private CDFI loans for affordable housing and related public works, which would reduce risk-indexed interest rates and reduce delays due to complex underwriting
- Use local adoption of regional best-practice policies for displacement protection and mixed-income inclusion as filter criteria or preference criteria for loan/grant making.
- Make funding available to communities throughout the region, but focus on PDAs or subsets of PDAs such as corridors or Regionally Prioritized PDAs with high housing density, transit proximity, green infrastructure, hazard mitigation, mixed-income development, and resident protections
- Purchase outstanding performing loans from existing local and subregional HTFs so they could immediately relend the money for RHTF program priorities

### **What funding sources might a RHTF use?**

A substantial dedicated public revenue source is essential to anchor an RHTF. The relevant order of magnitude is hundreds of millions of dollars per year.<sup>4</sup> Among the most promising sources are the following:

- Petition the Strategic Growth Council to devolve a portion of unallocated Cap & Trade funds to regional councils of governments (COGs) or metropolitan planning organizations (MPOs) to allocate to projects in PDAs that qualify as “Regionally Prioritized PDAs” because they will make a major improvement to the regional jobs/housing fit and are in low-VMT (vehicle miles traveled) areas.
- Support or develop a ballot measures for a regional development impact fee or document recording fee, if necessary beginning with State legislation to simplify the process.

- Support or develop State legislation to devolve a portion of State sales tax subventions (above a previous high-water mark) to regional government to be allocated for housing and housing infrastructure projects according to a plan adopted by the COG and ratified by a majority of jurisdictions representing a majority of population. Grant exemption to any jurisdiction that meets thresholds for housing production, affordable housing provision and housing/jobs balance.<sup>5</sup> An exempt jurisdiction could keep its full status quo 1% sales tax subvention and opt out of receiving any of the pooled regional funds.
- Once established, the RHTF would be a natural depository (with return to source provisions) for smaller jurisdictions' impact fees or inclusionary in lieu fees that lie fallow pending the next local project.
- The RHTF could serve as intermediary to pilot sanctioned subregional RHNA swaps of housing for dollars or water allocation, or to recognize (perhaps with matching funds or allocation preference) in-kind contributions made by jurisdictions to affordable housing developments such as waiving or deferring fees, or ground-leasing public land.
- Funders' promoting particular uses could partner to set up subfunds, for example, a subfund for seismic and conservation retrofits in communities of concern in East Bay Corridor Initiative communities.

### **How might a RHTF be structured and administered?**

Presumably, an integrated regional governmental entity would have the charter, credibility, support and resources necessary to launch and sustain a regional housing trust fund. Therefore, governance would be vested in the merged entity itself, or an appointed board subcommittee or an affiliated board.

It would also make sense for certain centralized functions to be performed by staff of the governing entity, or by a singular administrative entity under contract, while contracting out other functions to qualified existing local and subregional program operators, experienced public and private (CDFI) originators of loans and grants, who would perform front-line grant and loan administration. Working through qualified existing program operators would avoid creating new bureaucracy to perform necessary program administrative functions. Additionally, it is these very program operators with whom local grantees or loan recipients must work on a regular basis to get funding and permits, and with whom funders, planners, service vendors, and local elected officials have established working relationships.

#### *Centralized functions*

- Policy and participation leadership
- Executive management
- Staffing the governing entity to establish high-level policy and strategy
- Fund development through voter information, grant writing, capital campaigns

- Fiscal management of funds and subfunds, reporting, transactional accounting to make block grants or buy loans; and
- Oversight of qualified local and subregional program operators performing front-line grant and loan administration under contract.

#### *Grant and Loan Administration*

- Administer state and federal environmental protection and labor law regulations
- Evaluate specific project proposals
- Underwrite and originate loans
- Oversee projects (progress inspection, cash release management)
- Manage loan portfolio (collections, annual inspections, ad hoc refinance requests)

### **Next Steps**

#### *Project Initiation*

- Secure approval to continue conceptual development
- Seek funding for a feasibility study and conceptual development
- Charter a subcommittee of the Regional Planning Committee as a sounding board
- Coordinate with appropriate MTC staff and committees
- Assign a project lead tasked to bring back a workplan to the ABAG Executive Board

Presumably, the workplan, once developed, would include at least the following steps:

- Refine prospective uses by conducting a rapid scan of existing programs that offer comparable “products” to proposed RHTF priorities, then conduct in-person meetings with representative program operators and loan/grant recipients in order to identify gaps and leverage points with precision.
- Prepare preliminary analysis of the technical feasibility and potential scale of prospective sources.
- Building on previous steps, conduct a political feasibility analysis through a combination of polling, legislator interviews, and stakeholder outreach.

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<sup>1</sup> Examples of entities in the Bay Area that meet the classic housing trust fund definition are: Local Housing Trust Funds qualified to receive State Prop 1C LHFP funds (7), or CDBG Revolving Loan Funds for housing rehabilitation (25), or restricted funds holding local impact fees or in lieu fees (64), or post-RDA Successor Housing Agency trust funds (74).

<sup>2</sup> For example, a trust fund loans a qualified homebuyer 10% of purchase price; homeowner makes no monthly payments; at time of resale, the trust fund gets 10% of any appreciation (selling price minus purchase price). Homebuyer qualification is based on income and credit worthiness. Property qualification is based on proximity to homebuyer's workplace and/or a priority development area. The regional housing trust fund could originate these loans, but in a more streamlined approach, the loan would be made by a city or county program, then the regional housing trust fund would revolving their funds by purchasing the outstanding loan so that the local program could fund more loans to assist more homebuyers.

<sup>3</sup> Homeowners who are unable to pay for the planning, permitting and construction of an attached or detached accessory dwelling unit (ADU or DADU) from personal funds or a general line of credit collateralized by their home equity typically have difficulty getting a project loan from traditional commercial sources. Public sources, such as city or county home rehabilitation loan programs have the requisite experience to help homeowners through a renovation process, and have excellent leverage to promote or require seismic, water, energy measures co-benefits, but may have very limited funds. A regional fund could expand these city/county programs by revolving their funds, that is, purchasing outstanding loans for completed ADU or DADU project so that funds could be relent to build the next ADU/DADU.

<sup>4</sup> Here are several points of reference as to scale. Raising adequate funds to match, dollar for dollar, all locally-originated gap funding (not pass-throughs of state or federal money) would require about \$100 million annually. Raising funds equivalent to the amounts formerly flowing into redevelopment agencies' housing trust funds would require about \$250 million annually. Taking into account existing local, state and federal funding streams, as well as typical funding mix proportions among these sources, \$100 million to \$250,000 million of new funding through a regional housing trust fund would translate to creating 1,000 to 3,000 additional permanently affordable homes each year. This would make a substantial contribution toward the Plan Bay Area Regional Housing Needs Allocation target of 14,000 annually, and appears even more substantial when compared to the approximately 5,000 per year average during the 2007 to 2014 planning cycle.