

## Affordable Housing Funding

This policy refers to dedicated, ongoing funding provided by local jurisdictions for the creation of deed-restricted affordable housing. In addition to helping make projects financially feasible, local financial support is a critical factor in securing outside subsidy. Without local funding, it can be difficult for projects to compete for the necessary state and federal funding. These funds are often collected into a housing trust fund or other dedicated account to be dispersed as subsidies and/or low-cost loans to developers.

### Program Design, Implementation and Evaluation Considerations

*The callout box below labeled “TOC Policy Requirements” describes the policy features necessary for a jurisdiction to receive credit toward TOC Policy compliance. All other policy features discussed in this document represent details found in existing policies on the subject and a jurisdiction may want to consider them when adopting or implementing a policy, but nothing is required for TOC Policy compliance unless noted as a requirement in the “TOC Policy Requirements” callout box or the [TOC Policy Administrative Guidance](#).*

#### Elements of the Program

- Standard set of financing terms, including affordability requirements
- Ongoing, secured funding
- Application process for funds

### At-A-Glance

#### POTENTIAL FUNDING SOURCES

(see information below about which funding sources count as “locally generated” for the purposes of TOC Policy compliance)

- Housing Trust Fund
- Commercial linkage fees
- Housing impact fees and inclusionary zoning in-lieu fees
- Local bond measures
- General Fund
- Taxes
- Successor agency funds
- Federal block grant funds
- State funding

#### COST

Very high.

#### ADMINISTRATIVE BURDEN

 High

Staff capacity required to identify funding, design program, conduct legislative process, administer funds and monitor project affordability and operations.

#### EXTRA CONSIDERATIONS

 Highly effective

#### WHICH P?

Production

#### POTENTIAL PARTNERS

- Community Based Organizations

#### OPTION FOR TOC POLICY COMPLIANCE?

Yes!





**TOC Policy Requirements:** The jurisdiction must have a program with secured and locally-generated<sup>1</sup> funding that provides ongoing allocations to the program at or above the level identified in [Appendix B of the Administrative Guidance](#). The amount contributed can vary by year as long as the total for the relevant four-year One Bay Area Grant (OBAG) cycle meets the specified target for the jurisdiction.

Housing program funds may be considered secured if they are included in a current budget from a source that is expected to continue and where the use for affordable housing can be reasonably expected to be approved in subsequent years.

The subsequent years' funding may require future budget approvals or may be dependent on uncertain but expected revenue sources, so long as there is not a known sunset date or other limit. For bond proceeds or other one-time investments, funding can be considered secured if it will be available for investment at the required level at any point in the four-year planning period, expected to align with the OBAG cycle.

If a jurisdiction is also using inclusionary zoning (Production Policy 1) for the TOC Policy's production requirement, funding generated by collecting in-lieu fees from inclusionary zoning cannot be counted toward the funding minimums required for this affordable housing funding policy (Production Policy 2). If the jurisdiction has inclusionary zoning but does not use it to satisfy the TOC Policy's affordable housing production requirement, the funding generated by collecting in-lieu fees may be counted towards satisfying Production Policy 2.

Jurisdictions that have an existing balance in a housing funding program when submitting final documentation for TOC Policy compliance may count existing funds toward the required total so long as funds are available for expenditure during the four-year planning period (anticipated to align with the OBAG cycle).

Jurisdictions that have committed affordable housing funds prior to submitting final documentation for TOC Policy compliance may count expended funds toward the required total so long as at least one of the following conditions is met: a) The funds are used to support a project or program occurring during the relevant four-year OBAG cycle (e.g., funds are committed to an affordable housing project that will be constructed during the OBAG 4 cycle sometime between 2026 and 2030), and/or b) The funds are expended after January 1, 2025.

The program must establish a standard set of financing terms, including affordability requirements. The program's affordability requirements must define affordable units as rental housing available to lower-income households earning 80% of AMI or less, and ownership housing to lower- and moderate-income households earning 120% of AMI or less. Jurisdictions should incentivize deeper levels of affordability where feasible or through offering additional incentives.

Affordable units must have recorded documents that set binding maximum rent or price restrictions to ensure affordability. The restrictions must ensure affordability for at least 55 years for rental housing and at least 45 years for ownership housing.

<sup>1</sup> *MTC Administrative Guidance: Transit-Oriented Communities Policy (pg. 31) outlines restrictions and guidelines that apply when considering whether a funding source counts as "locally generated."*

## Program Design Considerations

Jurisdictions may want to consider the following:

**DEDICATED FUNDING SOURCE:** Providing a committed, renewable stream of revenue for affordable housing. Securing a dedicated revenue source allows for predictability and reduces the time and resources needed to go through an annual budget allocation process.

**FUNDING SOURCES:** Structuring public funding sources flexibly to match the jurisdiction's needs. Public sources can be used strategically to secure land before a rezoning, for early high-risk dollars or final gap dollars, or for whatever use is most needed by projects. A single source can fund many programs - including production, preservation or tenant protections. Jurisdictions can specify target affordability levels and eligible uses.

**HOUSING TRUST FUND:** Creating a housing trust fund to pool and disperse funds collected from impact and in-lieu fees, federal funds, state funds and other sources. Jurisdictions can allocate these varied sources to affordable housing developers through a unified process, reducing administrative time and costs. Given that housing trust funds are established locally, they are not subject to the restrictions of federal subsidy programs and thus can be designed to address local priorities. Housing trust funds are generally administered by existing public offices but at times are administered instead by a partner organization. The State of California provides matching funds from the California Local Housing Trust Fund Program.

**LOAN TERMS:** Providing long-term subsidy to make projects feasible. Short-term loans are not always the best use of local dollars, as short-term acquisition loans from CDFIs are more readily available. Standard loan terms may include affordability requirements, often in the form of deed restrictions. Jurisdictions

can also establish a process for exceptions and amendments to the standard loan.

**FEES:** Considering which fee(s) best fit the jurisdiction's needs. Jurisdictions can consider the potential revenue of a given source and its reliability from year to year. Some common fees to fund affordable housing include:

- **Housing Impact Fee or In-Lieu Fees**
  - Collected for new residential buildings based on location and size of buildings. These fees are based on the assumption that an influx of new residents will generate increased demand for services and, in turn, jobs to fulfill that demand, and thus housing to serve those workers. Affordable housing impact fees are generally assessed on a per-unit or per-square foot basis, usually with different rates for different housing types.
  - A jurisdiction offers the option to pay a fee instead of meeting affordability requirements. Some jurisdictions require fees for certain project types.
- **Commercial Linkage Fee**
  - Commercial developers pay a fee to offset the need for affordable housing created by new jobs, calculated by the square footage of the building.
- **Vehicle Miles Traveled (VMT) Mitigation or Impact Fee**
  - Fees collected from high VMT development or VMT inducing transportation projects as CEQA mitigation to fund infill development or affordable housing that reduces regional VMT. These fees seek to mitigate the transportation impacts of new development.
- **Condo Conversion Fee**
  - Fees are collected for projects that convert rental housing to condo ownership. Condo conversions can

lead to a decrease in the availability of affordable rental units, and these fees aim to mitigate the impact of housing loss.

- **Business License Fee**

- A fee is collected from all businesses located in or doing work in the jurisdiction. These fees seek to offset the need for affordable housing created by jobs located in the jurisdiction.

**GENERAL FUND, TAXES AND BOND MEASURES:**

Some common allocations and taxes that support affordable housing:

- **General Fund Allocations** - A jurisdiction earmarks a portion of the general fund.
- **Employee “Head Tax”** - Large employers pay a fee per employee.
- **Real Estate Transfer Tax** - A fee collected for property sales.
- **Transient Occupancy Tax (TOT)** - A tax assessed to visitors staying in all lodging establishments within the jurisdiction.
- **Voter approved bond measure funding**, subject to citizen oversight and independent audits

**DEVELOPER FEES:** Leveraging developer fees to support ongoing operations and capacity building for mission-driven affordable housing. Jurisdictions can set reasonable limits on developer fees.

**TERM OF AFFORDABILITY:** Establishing a minimum number of years, or term of affordability, for all investments in affordable housing. Longer terms are often preferable, helping to get the most out of the local investment.

## **Program Implementation, Administration and Enforcement**

Housing trust funds are generally established by ordinance, which defines allowable uses, target populations, affordability requirements and administrative authority. Housing trust funds are

generally administered by a lead government agency, often with an oversight board made up of diverse stakeholders, although they can also be administered by a partner organization.

Jurisdictions can consider disbursing housing trust funds on a rolling basis to maximize the funds’ flexibility.

The administrative authority will issue a Notice of Funding Availability (NOFA) and evaluate applications through competitive scoring. They may consider including geographic or population set asides aligning with local needs and priorities. A review committee will then review applications through a transparent, documented evaluation process.

The administrative authority can regularly monitor grantees and loan recipients to ensure developments meet affordability terms and can conduct regular site inspections.

### **Program Evaluation**

To evaluate the effectiveness of affordable housing funding programs, jurisdictions can analyze the total funds allocated and expended, how many units are developed and the cost per unit developed, the percentage of units at varying levels of affordability, the amount of other funding sources leveraged per local affordable housing funding dollar, and the demographics of households residing in units developed.

## Complementary Policies

**INCLUSIONARY HOUSING:** Inclusionary housing requires or incentivizes developers to include affordable units in new residential developments or contribute to a local affordable housing fund.

**COMMUNITY LAND TRUSTS:** Given CLT's commitment to preserving long-term housing affordability, jurisdictions may want to explicitly include them as eligible recipients, and acknowledge that loan documents may need to be adjusted to allow for cooperative ownership structures.

**FUNDING TO PRESERVE UNSUBSIDIZED AFFORDABLE HOUSING:** While specific to unsubsidized affordable housing, this funding may be administered through the same source as general local affordable housing funding.

*This document is intended to provide general information and does not constitute legal advice. Additional facts, facts specific to a particular situation, or future developments may affect the subjects discussed in this document. Seek the advice of your jurisdiction's legal counsel before acting or relying upon this information. For specific questions regarding TOC compliance, please reach out to [TOCpolicy@bayareametro.gov](mailto:TOCpolicy@bayareametro.gov).*

## Other Resources

### EXAMPLES\*

[City of San Mateo - Commercial Linkage Fee](#)

[City of Emeryville - Measure C Affordable Housing Bond](#)

[City of Healdsburg - Transient Occupancy Tax](#)

[City of Berkeley - Business License Tax](#)

### OTHER RESOURCES

[Local Housing Solutions - Funding a Local Housing Strategy](#)

[Local Housing Solutions - General Obligation Bonds for Affordable Housing](#)

[Metropolitan Transportation Commission - Production Policy 2: Affordable Housing Funding](#)

*\*Note that examples have not been vetted for full TOC Compliance.*