

Final Report

Funding Affordable Housing Near Transit in the Bay Area Region

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STRATEGICECONOMICS

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I. INTRODUCTION

Based on the Bay Area’s progress in meeting the Regional Housing Needs Allocation (RHNA) goals for 2007-2014, it is apparent that the region faces a challenge in producing sufficient very low income (VLI), low income (LI) and moderate income (MODI) housing units to meet demand. While the housing production goals were largely met for market-rate units (above moderate income) across the Bay Area, only 28 percent of the units allocated for lower income households were issued permits from 2007-2014¹. Lack of funding, limited development sites zoned for housing, and inadequate public support are some of the major barriers to developing affordable units.

In response to the region’s housing affordability crisis, two of the region’s major transit agencies – BART (Bay Area Rapid Transit) and VTA (Santa Clara Valley Transportation Authority) – have recently established ambitious targets for building lower income housing on their transit lands. Achieving the transit agencies’ objectives will require raising additional local funding, in addition to coordinating closely with local jurisdictions to enable higher-density housing on transit properties.

To help the Great Communities Collaborative and its partners to advance the vision of promoting affordable housing near transit, this paper addresses three key issues:

- 1. Measuring the funding gap at the regional scale required to meet the demand for very low and low income housing in the region.** In this report, the focus of analysis is VLI and LI housing, given that housing for this level of affordability relies more heavily on funding sources and programs provided through federal, state, and local agencies. Because there are very few public funding sources targeted to moderate income housing; land use policies, incentives, and other market-based strategies play a major role in enabling the construction of moderate income units.
- 2. Identifying the local funding gaps and policy changes that would facilitate meeting the affordable housing goals established by BART and VTA on transit lands.** As discussed above, BART and VTA’s affordable housing goals are ambitious, and will require close coordination with local governments to enable housing development in station areas, in addition to accessing funding.
- 3. Identifying new strategies at the federal, state, regional, and local level to promote the production of new affordable housing units in the Bay Area overall, and near transit.** An important avenue to increase the pace of construction of new affordable housing is through zoning and land use regulation for market-rate developers to provide lower income housing. Some examples of local land use policies to promote affordable housing production include incentive zoning and inclusionary zoning, which can be useful for encouraging the market to deliver housing units, especially for moderate income households.

¹ Based on a 2014 ABAG Report entitled “San Francisco Bay Area Progress in Meeting 2007-2014 Regional Housing Need Allocation (RHNA)”, between 2007 and 2014, of the VLI units, 29 percent progress was made; of the LI units, 26 percent progress was made; of the MODI units, 28 percent progress was made, and of the above moderate income units, 99 percent progress was made.

II. AFFORDABLE HOUSING FUNDING GAP IN THE BAY AREA REGION

This section quantifies the regional funding gap for very low and low income housing in the Bay Area, and describes the methodology employed to measure the gap.

METHODOLOGY FOR MEASURING THE GAP

To assess the region's affordable housing funding gap, Strategic Economics developed a methodology following the steps below. The region's total annual affordable housing *funding need*, or the amount of funding required to build affordable housing, is summarized in Table II-1. The total annual *funding gap*, which represents the difference between the funding need and existing sources and subsidies currently available for affordable housing, is summarized in Table II-2. Appendix A and C includes a more detailed summary of the methodology adopted.

1. Estimate the total per unit cost of developing affordable housing based on a review of recently built affordable housing projects (Table II-1, Column b). A sample of 46 new construction projects located in Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara counties was selected. A detailed description of the sample is included in Appendix C.
2. Calculate the per unit supportable debt that can be financed based on the rents that VLI and LI tenants can afford (Table II-1, Column c). These calculations are based on California's Housing and Community Development 2016 Income Limits, and on the assumption that households should spend no more than 30 percent of their annual income on housing costs.
3. Subtract the supportable debt (Table II-1, Column c) from the development costs (Table II-1, Column b) to calculate the *funding need per unit* (Table II-1, Column d).
4. Multiply annual RHNA allocations for each income level, estimated from the 2014-2022 RHNA cycle (Table II-1, Column e) by the *per unit funding need* (Table II-1, Column d) to calculate the *total annual funding need for VLI and LI housing* (Table II-1, Column f).
5. Total the amount of federal, state, county, regional, and local subsidies and funding sources that are currently available for VLI and LI housing in the Bay Area region (Table II-2). These sources are discussed in more detail in Section III of this report.
6. Subtract the typical subsidies and funding sources from the total funding need to arrive at the region's funding gap. The *funding gap* represents the amount of money that the region would need to raise (in addition to existing funding sources) to meet its RHNA targets for VLI and LI housing units (Table II-2).

More detail on the calculations of development costs and funding sources can be found in Section III of this report.

REGIONAL FUNDING GAP

Based on recent development patterns, the Bay Area’s regional funding gap is estimated at \$1.45 billion annually for VLI and LI housing. If the funding that has historically been available through federal programs, including federal tax credits, continues at the same levels, the Bay Area would need to raise \$1.45 billion in addition to existing major subsidies for affordable housing. It would cost approximately \$4.28 billion per year to build the region’s very low and low income housing needs, as defined by the regional housing needs allocation (RHNA). Existing federal, state, and local funding sources for affordable housing units in the Bay Area total \$2.84 billion annually. (More information on these funding sources is provided in Section III of this report.) Once these subsidies are accounted for, the remaining gap is \$1.45 billion annually².

If federal resources shrink and tax credit pricing remains low, the Bay Area’s funding gap will increase by nearly ten percent. Since 2017, the value of low-income housing tax credits has declined from \$1.05 per dollar to \$0.91 per dollar. This is equivalent to a 15 percent decrease in tax credit funding for affordable housing. If the lower tax credit pricing becomes permanent, the projected funding gap for the Bay Area would be \$1.58 billion annually, as shown in Table II-3. The gap may be even larger if the federal government cuts back on other housing programs like HOME.

Rising development costs are a major challenge to closing the funding gap for affordable housing. The affordable housing funding gap estimates are based on the available data on development costs from projects that were awarded funding within the last several years. According to local non-profit developers, current construction and land costs have been growing rapidly, especially in transit-oriented locations in the core of the region. With higher development costs, the funding gap for very low and low income housing units would be even wider than the numbers presented in this report.

Within the region, the amount of funding needed to build affordable housing varies significantly by county, based on development costs and household growth allocations. As shown in Table II-1 and Figure II-1, the cost of building a unit was estimated at \$455,000 in Contra Costa County and \$650,000 in San Francisco. The regional housing needs allocation (RHNA) also sets different affordable housing targets for each county. Therefore, Santa Clara County for example, which has estimated development costs of approximately \$500,000 per unit and the highest RHNA goals in the region, would require \$1.4 billion in funding annually, without accounting for subsidies (see Figure II-1).

The availability of local funding is critical for achieving regional affordable housing goals. Overall, local housing funds from Bay Area counties and cities is estimated at \$1.6 billion each year on aggregate (see Table II-2). However, this regional estimate is based on historical funding from local governments for low income housing; some of the underlying programs that provided local funding, such as redevelopment, are no longer available. Furthermore, the amount of funding available to cities and counties is highly variable from place to place. For example, San Francisco has an affordable housing impact fee, as well as a citywide bond measure for affordable housing. On the other hand, many Contra Costa County cities do not have local affordable housing funds in place, and the county has not approved a similar bond measure. The lack of local resources to match federal and state subsidies is often a roadblock for financing low income housing in many under-resourced Bay Area jurisdictions.

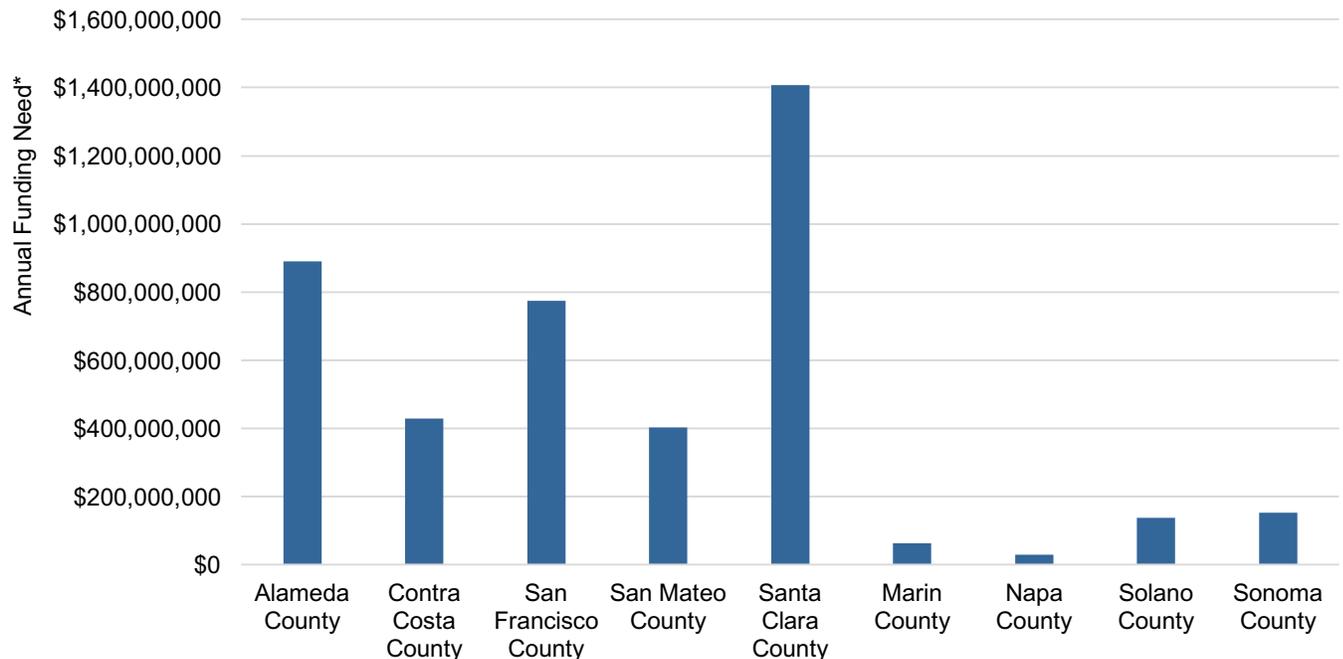
² These numbers are expressed on an annual basis to reflect (1) the annualized VLI and LI housing production that would be needed over the next eight years to meet RHNA 2014-2022 goals, and (2) the average annual contributions from federal, state, and local sources, which tend to be disbursed on an annual basis.

Table II-1. Annual Funding Need for Very Low and Low Income Housing in the Bay Area Region

Income Level and Unit Type (a)	Per Unit Development Costs (b)	Average Supportable Debt (c)	Per Unit Funding Need (d)	Annualized 2014-2022 RHNA Allocation (e)	Aggregate Annual Funding Need, Given RHNA (f)
Alameda County					
Very Low Income (40% AMI)		\$22,736	-\$452,264	1,239	-\$560,355,283
Low Income (60% AMI)	\$475,000	\$74,527	-\$400,473	826	-\$330,590,461
Contra Costa County					
Very Low Income (40% AMI)		\$25,083	-\$429,917	658	-\$282,885,354
Low Income (60% AMI)	\$455,000	\$76,874	-\$378,126	386	-\$145,862,027
San Francisco County					
Very Low Income (40% AMI)		\$50,876	-\$599,124	779	-\$466,867,097
Low Income (60% AMI)	\$650,000	\$121,005	-\$528,995	580	-\$306,751,012
San Mateo County					
Very Low Income (40% AMI)		\$52,464	-\$477,536	574	-\$274,284,642
Low Income (60% AMI)	\$530,000	\$122,593	-\$407,407	313	-\$127,671,247
Santa Clara County					
Very Low Income (40% AMI)		\$40,396	-\$459,604	2,020	-\$928,285,302
Low Income (60% AMI)	\$500,000	\$98,140	-\$401,860	1,193	-\$479,318,883
Marin County					
Very Low Income (40% AMI)		\$51,670	-\$538,330	77	-\$41,585,972
Low Income (60% AMI)	\$590,000	\$121,799	-\$468,201	46	-\$21,478,728
Napa County					
Very Low Income (40% AMI)		\$23,909	-\$441,091	46	-\$20,400,438
Low Income (60% AMI)	\$465,000	\$75,701	-\$389,299	25	-\$9,683,823
Solano County					
Very Low Income (40% AMI)		\$23,909	-\$441,091	214	-\$94,338,242
Low Income (60% AMI)	\$465,000	\$75,701	-\$389,299	113	-\$43,893,507
Sonoma County					
Very Low Income (40% AMI)		\$23,909	-\$441,091	227	-\$100,237,828
Low Income (60% AMI)	\$465,000	\$75,701	-\$389,299	137	-\$53,236,693
Total Regional Bay Area Funding Need for Very Low and Low Income Housing					-\$4,287,726,538

Source: See Appendix A and C for more details. California Housing & Community Development Department, 2016; California Tax Credit Allocation Committee, 2013-2016; Association of Bay Area Governments, 2014; U.S. HUD, 2016; Novin Development and Strategic Economics, 2017.

Figure II-1. Affordable Housing Annual Funding Need by County for Very Low and Low Income Housing in the 9-County Bay Area Region, 2016



* The funding need depicted in the chart is the amount of total funding required to build affordable housing, inclusive of existing sources of federal, state, and local subsidies.
 Source: California Housing & Community Development Department, 2016; Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Association of Bay Area Governments, 2014; Novin Development and Strategic Economics, 2017.

Table II-2. Affordable Housing Annual Funding Gap for Very-Low and Low Income Housing, Given Federal, State, and Local Funding Sources in the 9-County Bay Area Region, 2016

	Annual Amounts for Very Low and Low Income
Aggregate Annual Funding Need (a)	(\$4,288,000,000)
Annual Funding Available (Estimated)	
Typical Federal and State Subsidies (b)	\$1,271,000,000
Typical Regional and Local (c)	\$1,347,000,000
New County or City Bond Measures (d)	\$224,000,000
<i>Subtotal</i>	\$2,842,000,000
Remaining Funding Gap, Given All Subsidies	(\$1,446,000,000)

(a) See Table II-1, rounded to the nearest million.

(b) See Section III, Table III-1, rounded to the nearest million. This includes 4% and 9% LIHTC, AHP, HOME, AHSC and other federal programs.

(c) Based on a review of 46 affordable housing projects, typical local funding in the Bay Area is estimated at approximately \$145,000 per unit, which is multiplied by annual RHNA VLI and LI housing unit estimates to obtain this value. Local sources typically include in-lieu and impact fees; land donations, and other general fund appropriations. See Section III and Appendices for more information on these calculations.

(d) See Section III, Table III-4, rounded to the nearest million. See Appendices for more information on these calculations.

(e) The remaining funding gap is the difference between the funding need and the existing sources of subsidies.

Sources: Novin Development and Strategic Economics, 2017.

Table II-3. Estimated Regional Funding Gap Under Historical and Projected Tax Credit Pricing Scenarios

	Annual Funding Gap, Scenario 1 (Historical Tax Credit Pricing)	Annual Funding Gap, Scenario 2 (Projected Tax Credit Pricing)
Aggregate Annual Funding Need (a)	(\$4,288,000,000)	(\$4,288,000,000)
Annual Funding Available (Estimated)		
Typical Federal and State Subsidies (b)	\$1,271,000,000	\$1,140,000,000
Typical Regional and Local (c)	\$1,347,000,000	\$1,347,000,000
New County or City Bond Measures (d)	\$224,000,000	\$224,000,000
<i>Subtotal</i>	\$2,842,000,000	\$2,711,000,000
Remaining Funding Gap, Given All Subsidies	(\$1,446,000,000)	\$1,577,000,000

(a) See Table II-1, rounded to the nearest million.

(b) See Section III, Table III-1, rounded to the nearest million. This includes 4% and 9% LIHTC, AHP, HOME, AHSC and other federal programs. Under Scenario 1, federal tax credits are valued at \$1.05 per dollar per historical trends. Under Scenario II, tax credits are valued at \$0.91 per dollar, based on more recent market prices.

(c) Based on a review of 46 affordable housing projects, typical local funding in the Bay Area is estimated at approximately \$145,000 per unit, which is multiplied by annual RHNA VLI and LI housing unit estimates to obtain this value. Local sources typically include in-lieu and impact fees; land donations, and other general fund appropriations. See Section III and Appendices for more information on these calculations.

(d) See Section III, Table III-4, rounded to the nearest million. See Appendices for more information on these calculations.

(e) The remaining funding gap is the difference between the funding need and the existing sources of subsidies.

Sources: Novin Development and Strategic Economics, 2017.

III. AFFORDABLE HOUSING FUNDING SOURCES

Affordable housing development projects in the Bay Area receive funding from multiple sources. Based on a review of 46 affordable housing developments located in Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara counties, Strategic Economics summarized typical funding sources used for projects, by type of source. The categories of funding were defined as: Federal; State; Regional; City and County; and Other. In this section, each of these major funding sources is described and quantified.

FEDERAL AND STATE SOURCES

Federal and state sources are described in Table III-1, with detailed notes provided in Appendix B.

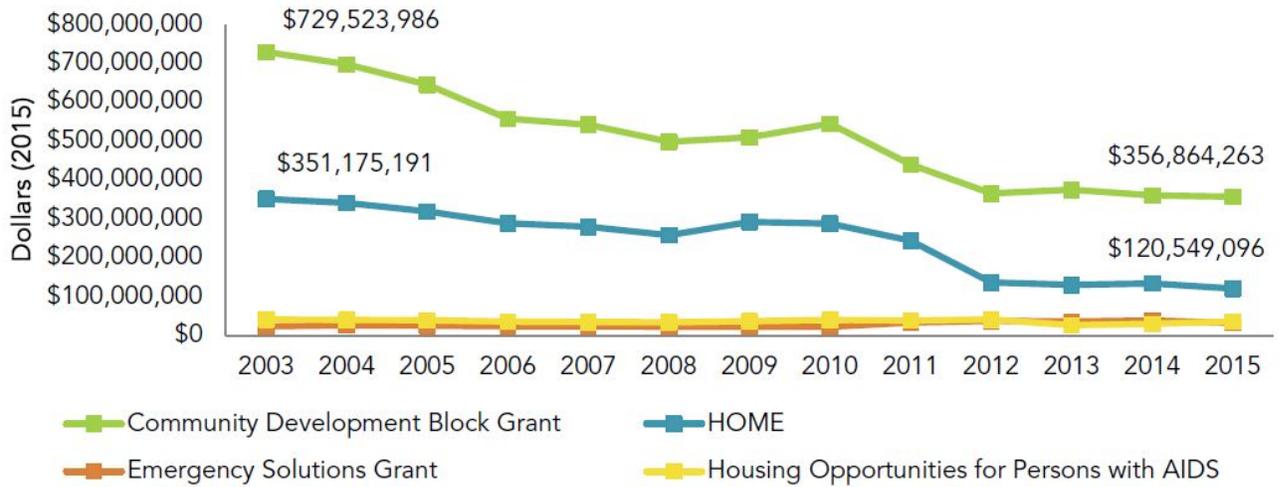
The Bay Area receives approximately \$1.27 billion annually from federal funding sources for VLI/LI income housing. As shown in Table III-1 below, the Low-Income Housing Tax Credit (LIHTC) program is the most important federal funding source for affordable rental housing, totaling nearly \$1 billion per year in the Bay Area. The LIHTC program is a federal tax subsidy that gives investors “dollar-for-dollar” credits on their tax liability, which can then be converted to equity contributions to subsidize low-income housing projects. Other important federal sources are the HUD Section 8 Project-Based Housing Choice Vouchers (\$104 million per year) and the Federal Home Loan Bank’s Affordable Housing Program (\$65 million per year).

Federal subsidies for affordable housing are stagnant or in decline. Since the sequester of 2011, the amount of overall funding provided for affordable housing has been greatly diminished. For instance, HOME and CBDG funding across California has decreased by between 50 and 60 percent between 2003 and 2015³ (Figures III-1 and III-2). Recently proposed reductions to the corporate tax rate as well as budget cuts to HUD, if passed, would further decrease the amount of funding available through tax credits and other programs for affordable housing – in part because investors would have decreased tax liability, and thus less incentive for purchasing tax credits⁴.

³ California Department of Housing and Community Development, “California’s Housing Future: Challenges and Opportunities. Statewide Housing Assessment 2025.”

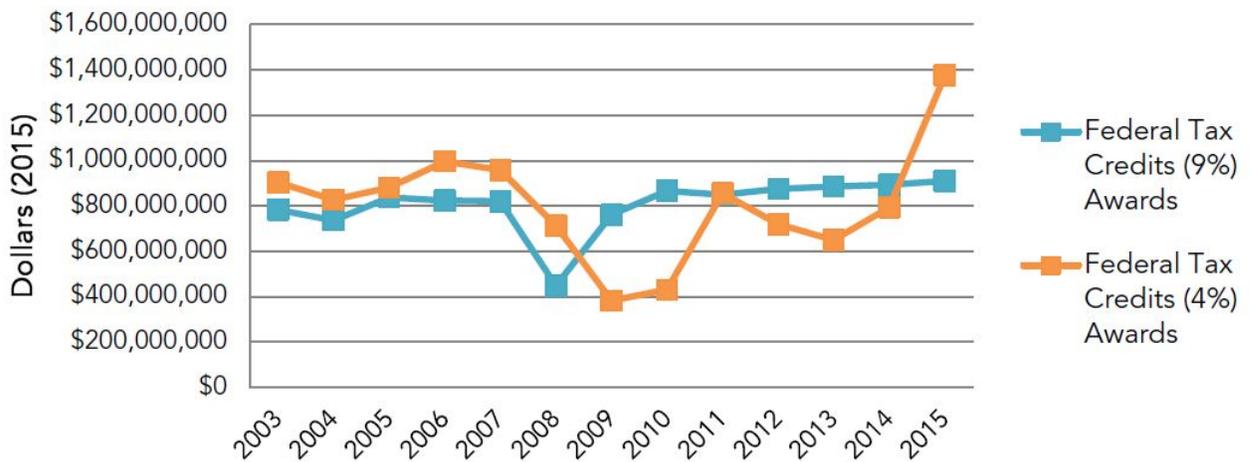
⁴ See Appendix B for more detailed calculations.

Figure III-1. HUD Program Allocations to California, 2003-2015 (Adjusted for inflation in 2015 dollars)



Source: California Housing and Community Development Department, 2017 Report: *California's Housing Future: Challenges and Opportunities (Public Draft)*. HUD Formula Program Allocation by State: 2003-2015. Graphic and inflation adjustment by HCD.

Figure III-2. Federal Tax Credit Awards, 2003-2015 (Adjusted for inflation in 2015 dollars)



Source: California Housing and Community Development Department, 2017 Report: *California's Housing Future: Challenges and Opportunities (Public Draft)*. HCD Analysis of TCAC Mapped Developments. Graphic by HCD.

The State of California has one substantial housing funding source that contributes about \$75 million annually to the Bay Area. This major funding source, the Affordable Housing and Sustainable Communities grant (AHSC), offered its first round of awards in 2014. AHSC provides grants and loans for affordable housing projects that reduce greenhouse gas (GHG) emissions, and is administered by the Department of Housing and Community Development (HCD). Previous programs implemented by HCD such as the Infrastructure Infill Grant (IIG), the Transit-Oriented Development (TOD) Grant, and the Multifamily Housing Program (MHP) are no longer available.

There are virtually no federal or state funding sources that directly subsidize rental moderate income housing. The funding sources listed below are only accessible to fund VLI and LI units. Many local jurisdictions encourage the production of moderate income housing through land use policies and zoning incentives rather than through direct monetary public subsidies.

Table III-1. Estimated Annual Federal and State Funding for Affordable Housing Allocated to the 9-County Bay Area Region

	Funding Amount (Based on 2015-2016)	Funding, Percent of Total Available
9% & 4% Low Income Housing Tax Credits (with CA state tax credits) (LIHTC) (a)	\$993,334,371	78%
Federal Home Loan Bank Affordable Housing Program (AHP) (b)	\$64,868,753	5%
HUD Section 8 Project-Based Housing Choice Vouchers (HCV) (c)	\$104,200,043	8%
HUD HOME (d)	\$18,773,664	1%
HUD Housing Opportunities for Persons with AIDS (HOPWA) (d)	\$10,542,548	1%
HUD Emergency Solutions Grants (ESG) (d)	\$3,855,026	0.3%
California Affordable Housing and Sustainable Communities Program (AHSC) (e)	\$75,625,986	6%
Total	\$1,271,200,390	100%

Note: See Appendix B for the methodology for estimating the annual funding amounts for each program. Sources: Novin Development and Strategic Economics, 2017.

REGIONAL SOURCES

The Bay Area does not have regional grants to subsidize affordable housing production. However, there are two loan funding programs for affordable housing at the regional level, both seeded with investments from the Metropolitan Transportation Commission (MTC). These include the following loan funds:

- **The Bay Area Transit-Oriented Affordable Housing Fund (TOAH)** provides loans for the development of affordable housing and community services in transit areas. The fund was initially capitalized with \$10 million in capital from MTC, which was then leveraged to raise another \$40 million from private lenders and foundations. Affordable housing developers can access capital

from the TOAH loan fund for predevelopment, site acquisition, construction financing, mini-perm and bridge loans.

- **The Naturally-Occurring Affordable Housing Fund (NOAH)** is a \$10 million pilot revolving loan fund established in 2016 as part of the One Bay Area Grant Program to preserve housing affordability in priority development areas. The fund will be accessible in Fall 2017⁵ to non-profit developers and community land trusts for the acquisition and rehabilitation of “naturally occurring affordable housing” – privately owned multifamily units that are priced below market rents – in order to convert them into permanently affordable housing units. Borrowers will be required to leverage the NOAH fund at a ratio of at least 5:1.

CITY AND COUNTY FUNDS

Funding from county and city governments for affordable housing varies significantly depending on the types of local programs and policies that are in place. To estimate the amount of local funding that is typically available for affordable housing, Strategic Economics conducted a review of 46 affordable housing pro formas in Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara Counties. (See detailed methodology in Appendix C). The following summarizes the finding of the pro forma analysis.

The average amount of local funding is typically \$145,000 per unit. As shown in Table III-2, on average, local funding is the second largest source of subsidy after federal programs. On average, city and county funding accounts for about 28 percent of total sources for affordable housing projects. Typical funding sources include revenues from affordable housing in-lieu and impact fees; land donations, and other general fund appropriations. Local development impact fee waivers granted by cities are another (albeit less common) form of local subsidy. Finally, some jurisdictions have other local sources such as bond measures, which are discussed further below.

Some local governments contribute significantly more than the average per unit amount, while others are substantially lower. As shown in Table III-2 and Figure III-3, the amount of city and county subsidies available for affordable housing can vary a great deal by jurisdiction depending on the resources available. San Francisco’s local funding contribution to affordable housing project is \$248,000 per unit, compared to a local contribution of \$66,000 per unit for projects in Contra Costa County.

Local contributions to affordable housing projects often take the form of discounted or donated land. As shown in Table III-3, land costs account for between 11 percent and 15 percent of total development costs; therefore, a discount on publicly owned lands can be a significant source of subsidy for affordable housing.

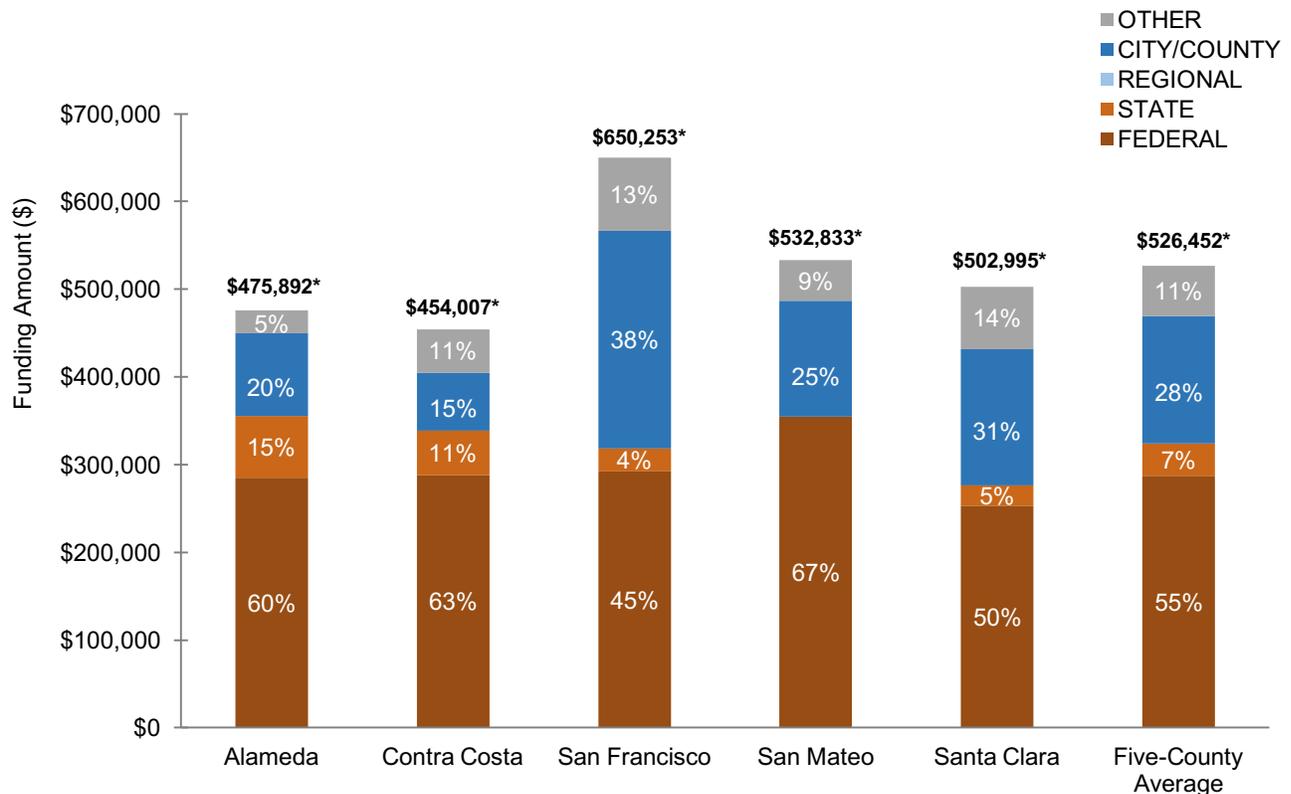
⁵ Although approved in July 2016, the NOAH loan funds are set to become available in Fall 2017. MTC, Personal Communication, May 2017.

Table III-2. Costs and Funding Source Types for a Sample of Affordable Housing Projects in the Bay Area Region, 2013-2016

County	Number of case study projects	Funding Sources Per Unit					Total Cost Per Unit
		Federal	State	Regional	City/County	Other	
Alameda	11	\$284,829	\$70,283	\$0	\$94,623	\$26,158	\$475,892
Contra Costa	8	\$288,181	\$50,476	\$145	\$66,191	\$49,014	\$454,007
San Francisco	11	\$292,047	\$26,024	\$0	\$248,443	\$83,739	\$650,253
San Mateo	5	\$354,791	\$0	\$0	\$132,115	\$45,928	\$532,833
Santa Clara	11	\$253,022	\$23,199	\$0	\$155,297	\$71,477	\$502,995
Total/Average	46	\$287,136	\$37,356	\$25	\$145,045	\$56,888	\$526,452

Source: See Appendix A and C for a more detailed methodology. Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Novin Development and Strategic Economics, 2017.

Figure III-3. Per Unit Funding Source Amounts and Shares for a Sample of Affordable Housing Projects in the Bay Area Region, 2013-2016



*Values in bold represent total development cost per unit, by county.

Source: See Appendix A and C for a more detailed methodology. Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Novin Development and Strategic Economics, 2017.

Table III-3. Land Costs for a Sample of Affordable Housing Projects in the Bay Area Region, 2013-2016

County	Number of case study projects	Total Cost Per Unit	Land Cost Per Unit*	Land Cost as a Share of Total Costs
Alameda	11	\$475,892	\$52,456	11%
Contra Costa	8	\$454,007	\$48,101	11%
San Francisco	11	\$650,253	\$80,793	12%
San Mateo	5	\$532,833	\$74,544	14%
Santa Clara	11	\$502,995	\$73,793	15%
Total/Average	46	\$526,452	\$65,834	13%

*Only 25 of the 46 sample projects had enough information to also estimate land cost per unit.

Source: See Appendix A and C for a more detailed methodology. Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Novin Development and Strategic Economics, 2017.

New city- or county-wide voter-approved bond measures will provide approximately \$224 million annually for VLI and LI housing, and \$44 million annually for moderate income housing. Several voter measures were approved in 2015 and 2016 that represent new sources of funding⁶. Three of these measures (Alameda County, Santa Clara County, and City of Oakland) are new funding sources, and could help to expand the amount of local funding that is typically available for affordable housing projects in those locations. Some counties, however, do not have these funding sources available – for instance, none of the voter measures described above can help subsidize projects in Contra Costa County.

Table III-4. City and County Funding Sources for Affordable Housing from Voter-Approved Bond Measures in the Bay Area

	Funding for Very Low and Low Income Housing	Funding for Moderate Income Housing
Santa Clara County Measure A (2016) <i>\$950 million bond/30 years</i>	\$100,000,000	\$18,750,000
Alameda County Measure A1 (2016) <i>\$580 million bond/20 years</i>	\$53,125,000	\$15,000,000
San Mateo County Sales Tax Extension Measure K (2016) <i>\$60-85 million/year</i>	\$30,000,000	-
City of Oakland Infrastructure Bond Measure KK (2016) <i>\$100 million/20 years</i>	\$12,500,000	-
San Francisco Housing Bond Proposition A (2015) <i>\$310 million/15 years</i>	\$28,750,000	\$10,000,000
Total	\$224,375,000	\$43,750,000

See Appendix D for more detail.

Source: Enterprise Community Partners, Novin Development, and Strategic Economics, 2017.

⁶ Alameda, Santa Clara, Oakland, and San Francisco passed new measures, whereas San Mateo's measure was the extension of a sales tax measure.

IV. TOD POLICY GOALS

BART and VTA have recently established policy goals to encourage the construction of new affordable housing units in transit areas and on agency lands. The implementation of these policies will require close coordination with local jurisdictions, as well as securing funding at the local level for affordable housing. This section summarizes the affordable housing policies of each transit agency, and describes the overall development opportunities and constraints for meeting each agency's affordable housing objectives.

BART POLICY

BART's new TOD Policy adopted in December 2016 sets a number of performance targets, including the development of 20,000 new housing units within a half mile of BART stations by 2040. The Policy sets a target for 7,000 VLI and LI affordable units (35 percent of all units) to be built on BART-owned properties by 2040 (6,200 net new units after accounting for existing affordable housing on BART lands). This would be equivalent to producing approximately 270 new VLI and LI housing units each year between 2017 and 2040.

Most of BART's opportunities for new affordable housing development are located in the East Bay. BART currently owns 660 acres of properties. Though many properties are currently used for transportation purposes, approximately 270 acres are available to accommodate housing. The BART properties most suited for new development are mostly located in Alameda and Contra Costa Counties, with very limited opportunities in San Francisco and San Mateo Counties. Based on site characteristics, BART has determined that the stations with the strongest development potential are located in 12 jurisdictions in Alameda and Contra Costa Counties: Berkeley, Concord, Daly City, El Cerrito, Fremont, Hayward, Oakland, Pittsburg, Richmond, San Leandro, Union City, and Unincorporated Alameda County⁷.

Meeting BART's goal would require close coordination with local governments to plan for affordable housing on the agency's lands. As shown on Table IV-1, Alameda County and Contra Costa County have built on average 1,390 very low and low income affordable housing units each year. BART's target of 270 units per would represent approximately 19 percent of historical affordable housing production in the two counties. The 12 jurisdictions with the most potential for TOD have produced an average of 604 units of affordable housing each year. BART's affordable housing target represents 45 percent of the historical VLI and LI housing production within those jurisdictions.

⁷ EPS, "BART Affordable Housing Policy Analysis Draft Memorandum."

Table IV-1. Very Low and Low Income Housing BART Production Goals Compared to Previous Production Performance

	BART Affordable Housing Production Goal	Alameda and Contra Costa Counties, Average Annual Production*	12 Selected Jurisdictions, Average Annual Production**
Number of VLI and LI Units, Annually	270	1,390	604
BART Goal as a Percent of Previous Production		19%	45%

* Based on the average of affordable TCAC units built in Alameda and Contra Costa Counties in 2014 and 2015.

**Based on ABAG's RHNA Progress, by city. This is the average annual number of permits issued in these 12 selected jurisdictions between 2007 and 2014.

Source: BART Personal Communication, 2017; ABAG, 2014; California Tax Credit Allocation Committee, 2016; Novin Development and Strategic Economics, 2017.

Developing 270 new VLI/LI units annually on BART land would require raising \$36.5 million of local funding annually. Meeting BART's affordable housing goals will require local funding sources, in addition to federal and state subsidies. Table IV-2 summarizes the amount of funding from city and county sources that would be needed in order to meet the TOD policy goals on an annual basis, assuming existing federal and state programs remain in place at the same funding levels as 2015 and 2016. Based on a review of affordable housing projects in the four BART counties, the average amount of federal and state subsidies currently available for VLI and LI housing is estimated at \$393,000 per unit, and the average amount of local funding needed is \$135,000 per unit. This represents the typical amount of funding per unit disbursed by city and/or county jurisdictions for affordable housing across the four counties in which BART operates.

The local funding gap for meeting BART's affordable housing objective is higher for Contra Costa jurisdictions. Contra Costa County jurisdictions have historically contributed \$66,000 per affordable unit, or 15 percent of project development costs. Since the demise of redevelopment, many cities in Contra Costa County lack local revenue sources for affordable housing, and the County has not passed an affordable housing bond. Consequently, it will likely be more challenging to meet BART's affordable housing goals on transit lands in Contra Costa County.

Table IV-2. Annual Local Funding Needed to Reach BART's Affordable Housing Goals

	Amount for BART 4-County Region
BART VLI and LI Unit Goal, Annual	270
Per Unit Development Cost (a)	\$528,246
Average Revenues and Subsidies per Unit (b)	\$392,904
Average Local Funding Need Per Unit (a)	\$135,343
Total Local Funding Need, Annual (c)	\$36,542,610

(a) Average per unit for Alameda, Contra Costa, San Francisco, and San Mateo Counties based on typical funding for affordable housing projects from a review of sample pro formas.

(b) This is the sum of all revenues from rental income and federal, state, regional subsidies as defined in Table III-2 and Figure III-3.

(c) This is the product of BART's annual number of units, by the average local funding need per unit.

Source: BART, 2017; ABAG, 2014; Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Novin Development and Strategic Economics, 2017.

VTA POLICY

In 2016, VTA approved a TOD Joint Development Policy establishing a goal that 35 percent of new residential units built on VTA properties are affordable to VLI and LI households. The policy also set a target for individual development projects to include at least 20 percent affordable units.

It is estimated that VTA lands in San Jose could accommodate 1,400 new VLI and LI units. VTA has approximately 300 acres of land (or 200 acres, net of parking) for joint development distributed across 23 parcels in the South Bay⁸. Most of VTA's joint development properties are located in the City of San Jose. These properties could have potential to accommodate 1,400 or more affordable units for low and very low income households⁹.

VTA's affordable housing targets are challenged by local land use policies. Currently, many of the sites owned by VTA in San Jose are located in areas that are designated for employment uses. Achieving VTA's affordable housing objectives would require City action to approve zoning changes that enable higher density development.

POTENTIAL OPPORTUNITIES

BART and VTA may consider exploring the potential of reducing land costs for properties in under-resourced communities. Discounting the value of land could help close the gap in local funding for affordable housing, particularly in communities that do not have significant funding sources. As described in Section II, land typically accounts for between 11 and 15 percent of a project's development costs. Discounting land can be a significant source of local subsidy for affordable housing.

Reducing replacement parking can also help to incentivize affordable housing development on transit lands. It is estimated that a typical structured parking space costs between \$30,000 and \$60,000 per space to build¹⁰. Eliminating or reducing the requirement to build replacement parking is an important tool that transit agencies can use to lower the cost of developing affordable housing units on transit lands.

Close coordination with cities is needed in order to align local land use policies to affordable housing goals. Currently, not all local jurisdictions have zoning in place that enables the development of affordable housing on transit lands. Achievement of the transit agencies' objectives is dependent on having supportive land use regulations in place, especially in locations that have strong development potential. There is an important role for local leadership in helping push for such supportive local policies and regulations.

⁸ VTA, "Santa Clara Valley Transportation Authority Joint Development Policy: Development and Leasing."

⁹ VTA Staff, Personal Communication.

¹⁰ MTC, Nelson Nygaard, and Dyett & Bhatia, "Parking Structure Technical Report: Challenges, Opportunities, and Best Practices."

V. POLICIES AND STRATEGIES

This section describes the potential policy actions that could be implemented at the federal, state, regional, and local level to remove some of the barriers to funding and building affordable housing in the Bay Area.

FEDERAL

The Bay Area receives approximately \$1.27 billion annually from federal funding sources for VLI/LI income housing. However, many of these programs are at risk due to federal tax reform or budget cuts. There is a need to continue working with advocates to preserve these critical funding sources.

STATE

The State of California's funding for affordable housing is limited to AHSC, which is funded by the state's cap-and-trade program. Currently, various state legislators are proposing new legislation to renew the cap-and-trade program, as well as to establish new, permanent sources of funding for affordable housing. New state bills could raise between \$100 million to \$600 million annually in affordable housing funds for the region. The following describes each of the proposals:

- SB 2 (Atkins), also known as the Building Homes and Jobs Act, “would impose a fee of \$75 to be paid at the time of the recording of every real estate instrument, paper, or notice required [...] per each single transaction per single parcel of real property, not to exceed \$225.” This new funding source would require “20 percent of the moneys in the fund be expended for affordable owner-occupied workforce housing; 10 percent of the moneys for housing purposes related to agricultural workers and their families, and would authorize the remainder to be expended to support affordable housing, homeownership opportunities, and other housing-related programs, as specified.”¹¹ It is estimated that the fee would raise “hundreds of millions of dollars”, although the exact amount is not specified¹². In 2015, when a first iteration of the bill was introduced, the Assembly Appropriations Committee estimated the bill could raise between \$300 and \$500 million annually¹³. For the purposes of this exercise, it is assumed that the Bay Area would receive 20 percent of these funds (in proportion to the Bay Area's share of the state's population), which would translate into \$100 million annually.
- SB 3 (Beall), also known as the Affordable Housing Bond Act of 2018, would place a \$3 billion Statewide General Obligation bond on the November 2018 ballot to “finance various existing housing programs, as well as infill infrastructure financing and affordable housing matching grant programs”¹⁴. Assuming again that the Bay Area would receive 20 percent of these funds, this bill could offer \$600 million in new funding for the region.
- AB 71 (Chiu), also known as the Bring California Home Act, would create an additional funding stream that would flow into the California Tax Credit Allocation Committee (TCAC) program. The bill would remove the state mortgage interest deduction on second (non-primary) homes, and

¹¹ Atkins, Building Homes and Jobs Act.

¹² Non-Profit Housing Association for Northern California, “NPH Priority Bill 2017: Building Homes and Jobs Act.”

¹³ Metropolitan Transportation Commission, “MTC Legislation Committee Meeting Agenda, January 13, 2017.”

¹⁴ Beall, Affordable Housing Bond Act of 2018.

it is estimated that this would cause the state to recover approximately \$250-360 million annually¹⁵.

Other state bills under discussion address streamlining the permitting and approvals process at the local level in order to accelerate the production of housing (both market-rate and affordable). Some of these bills include:

- SB 35 (Wiener), also known as the Housing Affordability and Accountability Act, aims to “remove local barriers to creating affordable housing, as well as barriers in jurisdictions failing to build housing needed to meet Regional Housing Needs Allocation (RHNA) goals.”¹⁶
- AB 72 (Santiago and Chiu), along similar lines, would allow for increased enforcement of current state housing laws. If passed, the bill would primarily entail the appropriation of funds for California’s Attorney General to enforce housing element laws (including RHNA)¹⁷.

Finally, there are also discussions underway on how to promote affordable housing near transit specifically.

- AB 73 (Chiu) would “spur production of housing on infill sites around public transportation (transit oriented housing) by incentivizing local governments to complete upfront zoning and environmental review and rewarding them when they permit housing.”¹⁸
- Representatives of transit agencies have also suggested making changes to the AHSC and TCAC criteria to prioritize transit areas for awarding funds, and potentially allowing for the construction of replacement parking to be an allowable cost that can be subsidized.

REGIONAL

While MTC has several programs that tie the allocation of federal transportation dollars to meeting the region’s housing goals, there are no existing grant programs at the regional level for affordable housing. There have been multiple proposed strategies to increase regional funding sources for affordable housing, including the following ideas:

- Regional Measure 3 (RM 3), a new ballot measure that would establish a regional bridge toll increase to fund new transportation projects, with an allocation for affordable housing.
- A regional bond measure for housing and “quality of life”
- New regional impact fees on “greenfield” development to promote housing and jobs near transit and provide funding towards affordable housing in infill locations

¹⁵ California State Assembly Democratic Caucus, “Assembly Member David Chiu Joins Colleagues to Announce Bills to Address Affordable Housing Crisis.”

¹⁶ Wiener, “Senator Wiener Introduces Housing Affordability and Accountability Bill.”

¹⁷ California State Assembly Democratic Caucus, “Assembly Member David Chiu Joins Colleagues to Announce Bills to Address Affordable Housing Crisis.”

¹⁸ Ibid.

LOCAL

Strategic Economics also explored the potential for actions at the local level that could help fill the funding gap outlined in Section I, and to promote the development for affordable housing through market-based strategies.

LOCAL FUNDING

Legal challenges to inclusionary zoning, combined with serious funding shortages stemming in part from the loss of redevelopment funds, have led many local jurisdictions to implement affordable housing impact fees to raise funds for affordable housing. These fees can be leveraged on residential, commercial, office, or industrial development. Development impact fees on new market-rate rental housing and commercial linkage fees on new office space are the most common types of fees leveraged for affordable housing. In recent years, many Bay Area cities have implemented new impact fees or revised existing impact fees for affordable housing, including Oakland, San Mateo, Redwood City, East Palo Alto, San Jose, Colma, and Berkeley.

A survey of existing affordable housing impact fees in the Bay Area is provided in Appendix E of this report. As shown, impact fees vary a great deal in the region. The average fee per multi-family rental unit is \$19,000. The average commercial linkage fee in the region is about \$13 per square foot for office development. To derive an “order of magnitude” estimate of the local revenues that could be raised by enacting new impact fees in the region, Strategic Economics applied the region’s average fee levels to annual growth estimates for rental housing and office development in the five largest counties. The full methodology is discussed in more detail in Appendix E. Based on this analysis, it is estimated that the region could raise approximately \$65 million annually from impact fees on rental apartment development, and \$39 million annually from impact fees on office development.

In addition to local impact fees, there are also opportunities to pass new countywide bond measures to raise funding for affordable housing in under-resourced communities. As discussed in Section III, Alameda County, the City/County of San Francisco, the City of Oakland, Santa Clara County, and San Mateo County recently passed similar voter measures that could raise \$224 million each year for the preservation and construction of affordable units (see Table III-4). However, while there has been much dialogue on this issue, currently there are no similar existing or proposed revenue sources in Contra Costa County or North Bay counties.

Table V-1. Potential Annual Revenues from Impact Fees

Potential Annual Revenues	Annual Amount
Estimated Residential Impact Fees	\$65,112,203
Estimated Commercial Impact Fees	\$38,983,756

See Appendix E for more detail.

Sources: Non-Profit Housing Association of Northern California, 2015; 21 Elements, 2016; Costar, 2017; Novin Development and Strategic Economics, 2017.

LOCAL LAND USE POLICIES

An important avenue to increase the pace of construction of new affordable housing is through zoning and land use regulation for market-rate developers to provide lower income housing. Some examples of local land use policies to promote affordable housing production include:

- **Inclusionary Zoning Policies** requiring that market-rate development projects provide a specified percentage of below-market rate units, or pay a fee in-lieu of providing units. Programs may be structured to offer developers the option of providing units on-site or off-site, or paying an in-lieu fee to fund affordable housing development elsewhere in the jurisdiction. Requirements can also vary by project size or zone within the city. Inclusionary requirements (including the percentage of units required to be affordable, the level of affordability, and the size of the in-lieu fee) must be calibrated based on policy goals and the feasibility of development given local market conditions. Due to legal constraints, local governments have limited ability to mandate the inclusion of affordable units in rental properties. Therefore, this tool is most commonly used to produce affordable ownership housing, often in combination with impact fees on rental development.
- **Incentive Zoning, also known as Public Benefits Zoning**, provides land use incentives that lower the cost of development for market-rate projects, in exchange for providing affordable units or funding for affordable housing. Incentives may include density or building height bonuses, reduced parking requirements, and/or flexible setbacks. Incentive zoning sometimes takes the form of Overlay Zones, whereby a neighborhood can be designated more flexibly with an overlay zone on top of its existing zoning code, thus granting access to the types of incentives described above. In most cities, incentive zoning typically allows developers to provide a variety of community benefits (e.g., parks, bike and pedestrian improvements) in addition to affordable housing. Consequently, incentive zoning programs do not always result in the provision of affordable units.

VI. APPENDICES: DATA AND METHODOLOGY

APPENDIX A: FUNDING NEED CALCULATION

Overview: Table II-1 calculates the annual funding need for affordable housing in the Bay Area based on RHNA targets for 2014-2022.

Details on calculations and data sources:

- (a) The mid-points of typical AMI income brackets are used.
- (b) As explained in Appendix C, a sample of 46 previously funded and completed California Tax Credit Allocation Committee (TCAC) affordable housing projects was selected. TCAC publishes online summary reports (pro formas) for all recent projects, and these reports include information on the project, its cost and funding sources. The per unit development costs included in this table represent the average values of total cost per unit, by county, of this sample.
- (c) The average supportable debt from rents were calculated in the following way:
 - First, affordable rents were calculated using California Housing and Community Development FY 2016 Income Limits by county, averaged based on the assumption that a studio holds a 1-person household, a 1-bedroom holds a 1 or 2-person household, and a 2-bedroom holds a 3-person household. Given the prevailing definition of rent burden, it was assumed that households should pay no more than 30 percent of annual income on rent. A utility deduction was then applied, using U.S. Department of Housing and Urban Development FY 2016 utility allowances by county housing authorities. The affordable rents shown correspond to the mid-point of typical AMI brackets, and rents were translated into annual figures.
 - Second, the Net Operating Income (NOI) was calculated, assuming a 5 percent vacancy and collection loss and \$7,500 per unit annually for operating expenses and reserves.
 - Third, the amount of supportable debt over time was calculated assuming a debt coverage ratio of 1.25; an interest rate of 6.25 percent, and a 30-year term for the loan.
 - Lastly, the average supportable debts were calculated based on 1- and 2-bedroom units by income groups. This resulted in an average supportable debt from rent by county and by income-level, as shown in column (c).
 - A large majority (about 75 percent) of the units in the sample from which the development costs are derived are 1- and 2-bedroom units. Therefore, the match between the costs and the average supportable debt from 1- and 2-bedroom units is reasonable.
- (d) The per unit funding need is calculated by subtracting the average supportable debt from the per unit development cost.
- (e) Column (e) represents ABAG's 2014-2022 RHNA target goals by county and income group, translated into annual figures by dividing targets by the number of years (8) in the cycle.
- (f) The aggregate annual funding need is calculated by multiplying the per unit funding need by the annual RHNA requirement.

APPENDIX B: FEDERAL AND STATE FUNDING SOURCES

Overview: Table III-1 provides a review of currently available federal and state funding sources available. This table represents what funding has been typically available for affordable housing in 2015 and 2016. All amounts are shown on an annual basis, and whenever possible, amounts represent the average of 2015 and 2016 actual awarded amounts. Potential future changes to these programs are not evaluated in this table. This review was conducted using ABAG's 2014 report¹⁹, the sample of 46 programs, and multiple sources explained below.

Federal funding sources not included:

- CDBG, given that a large majority of its funding does not go towards housing.

Federal funding sources no longer active:

- HUD Section 202 Capital Advances²⁰
- HUD Section 811 Capital Advances²¹

State funding sources no longer active:

- California HCD Infrastructure Infill Grant (IIG)
- California HCD Transit-Oriented Development (TOD) Grant
- California HCD Multifamily Housing Program (MHP)

Details on calculations and data sources:

(a) Source: California Tax Credit Allocation Committee: Project Mapping, 2016²².

- This represents the average of all awarded amounts in the Bay Area in 2015 and 2016. It is assumed that 9% credits receive a \$1.05 pricing, and 4% state credits receive a \$0.65 pricing. This sum includes awards for both new construction and acquisition & rehabilitation projects. New construction projects account for about 40 percent (\$376,252,934) of the total awarded. However, these proportions vary year to year and in all cases, both types of award do contribute to some form of new affordability.
- The potential future changes to LIHTC under a new presidential administration are not incorporated into this estimate.
- At the time of writing, Bay Area non-profit developers confirmed a decrease in the value of 9% tax credits from a \$1.05 pricing, as used in this analysis, down to a \$0.91 pricing. Such a decrease in the pricing of credits would theoretically cause a 15% drop in LIHTC's absolute contribution to funding sources for affordable housing. The total amount, on average, would drop from \$993 million to \$862 million. This would translate into an additional funding gap of \$130 million, if this shift were to become permanent.

(b) Source: Federal Home Loan Bank of San Francisco, 2016²³.

- This represents the sum of amounts awarded to Bay Area projects in 2016.

¹⁹ Association of Bay Area Governments, "Affordable Housing Funding Gap Analysis."

²⁰ U.S. HUD, "Section 202 Supportive Services for the Elderly Program."

²¹ U.S. HUD, "Obama Administration Announces \$749 Million to Fund Housing for Very Low-Income Seniors and Persons with Disabilities. HUD No.11-266."

²² California State Treasurer, "California Tax Credit Allocation Committee Project Mapping."

²³ Federal Home Loan Bank of San Francisco, "Affordable Housing Program (AHP)."

- (c) Source: CY 2015 Housing Choice Voucher Program Renewal Allocations. HUD, 2015²⁴.
- This represents the sum of amounts awarded to Bay Area housing authorities in 2015. Of the total CY 2015 HUD HCV Program Renewal Funding that went to Bay Area Public Housing Authorities, it is assumed that 20 percent of is used for project-based vouchers, since this is maximum percent allowable by HUD. The total possible resulting Tranche B was calculated using TCAC's methodology, i.e. 5 percent vacancy, 1.2 debt service coverage ratio, 6 percent interest rate, and 15-year term/amortization.
- (d) Source: HUD Community Planning and Development (CPD) Program Formula Allocations for FY 2016 and FY 2015. HUD, 2016²⁵.
- The CPD Program Formula Allocations data includes all allocated amounts to local agencies for HOME, HOPWA, and ESG. This number represents the 2015-2016 average amount to agencies located in the Bay Area.
- (e) Source: California Strategic Growth Council, 2014-2015 and 2015-2016 Tables²⁶.
- This represents the average of amounts awarded to Bay Area projects in 2014-2015 and 2015-2016. Out of a total of \$120 million available in California for 2014-2015 and \$320 million in 2015-16, the Bay Area reaped \$53.8 million in 2014-15, and \$97 million in 2015-2016. The future performance of AHSC is uncertain and could vary drastically from its first two years of awards.

²⁴ U.S. HUD, "Office of Housing Choice Vouchers at HUD. CY 2015 Housing Choice Voucher Program Renewal Allocations."

²⁵ U.S. HUD, "Community Planning and Development Program Formula Allocations for FY 2016."

²⁶ California Strategic Growth Council, "AHSC Awards and 2015-2016 Summary Tables."

APPENDIX C: DESCRIPTION OF SAMPLE OF AFFORDABLE HOUSING PROJECTS PRO FORMA

Overview: A significant portion of the analysis in this report relies on a sample of recently built affordable housing projects. Both project *costs* and project *funding sources* were analyzed. Details on how project funding was studied are included in Table VI-1. Details on how *project costs* were calculated are included in Appendix A, and more information of the sample of projects used is included below.

Details on calculations:

- A sample of 46 affordable California Tax Credit Allocation Committee (TCAC) housing projects was selected. TCAC publishes online summary reports (pro formas) for all recent projects, and these reports include information on the project, its costs, and its funding sources.
- All projects are located in San Francisco, San Mateo, Santa Clara, Alameda and Contra Costa counties.
- All projects consist of new construction projects (as opposed to acquisition/rehabilitation).
- Projects included in the sample received funding between 2013 and 2016. Out of 46 projects in the sample, about a quarter date from 2016, a third date from 2015, a quarter date from 2014, and the remainder date from 2013. Therefore, construction cost estimates might be slightly low than current costs (2017).
- Projects located within a mile, or preferably, half-mile, of a BART, VTA, or Caltrain station were prioritized to make findings applicable to TOD policies. However, a few exceptions were made when sample sizes were too small. For this reason, four projects in San Mateo (located in Foster City, East Palo Alto, and Menlo Park), one project in Contra Costa (Pittsburg), and two projects in the western neighborhoods of San Francisco were included in the sample despite being more than a mile away from a high-quality transit station.
- The per unit development costs included in this report represent the average values of total cost per unit, by county, of this sample. However, none of the sample projects selected are located in the North Bay. For this reason, Marin County's per unit development cost is the average of San Francisco and San Mateo; Napa, Sonoma, and Solano counties' costs are the average of Alameda and Contra Costa values.
- By county, per unit development costs were applied uniformly across different income-level unit types.

The location of these projects is mapped in Figure VI-1.

Table VI-1. Select Sample Pro Forma Projects and their Funding Sources' Categorization

Funding Sources as Described in Pro Forma	Categorized As...	Amount
Sample Project A (Project # CA-14-098, Oakland, 2014, 9% Credit)		
U.S. Bank	Other (Bank loan backed against rents that tenants can afford)	\$2,518,900
U.S. Bank Tranche B	Federal (Bank loan backed against Section 8 HCVs)	\$2,553,000
Oakland Housing Authority Land Donation	City/County (Land donation)	\$6,800,000
HOME City of Oakland	Federal	\$2,750,000
HCD Infrastructure Infill Grant	State	\$3,156,639
General Partner Equity	Other	\$3,416
Deferred Developer Fee	City/County (Non-land donation)	\$260,500
Tax Credit Equity	Federal	\$20,802,102
Total		\$38,844,557
Sample Project B (Project # CA-15-800, Daly City, 2015, 4% Credit)		
Citibank Tranche A	Other (Bank loan backed against rents that tenants can afford)	\$3,171,000
Citibank Tranche B	Federal (Bank loan backed against Section 8 HCVs)	\$4,634,000
Seller Carryback Loan	Other	\$2,420,000
HTF/HOME Daly City	Federal	\$1,494,997
HOME San Mateo County	Federal	\$2,270,425
AHF San Mateo county	City/County (Non-land donation)	\$2,350,000
San Mateo Housing Authority	City/County (Non-land donation)	\$2,500,000
Citi Subordinate Loan	Other	\$780,000
Deferred Costs	City/County (Non-land donation)	\$301,821
Deferred Developer Fee	City/County (Non-land donation)	\$1,100,000
Tax Credit Equity	Federal	\$14,434,311
Total		\$35,456,554
Sample Project C (Project # CA-16-029, Emeryville, 2016, 9% Credit)		
Wells Fargo	Other (Bank loan backed against rents that tenants can afford)	\$2,675,539
Wells Fargo Tranche B	Federal (Bank loan backed against Section 8 HCVs)	\$4,362,591
Emeryville Land Donation	City/County (Land donation)	\$4,250,000
City of Emeryville	City/County (Non-land donation)	\$3,500,000
City of Oakland	City/County (Non-land donation)	\$2,000,000
HOME Alameda County	Federal	\$1,220,656
HCD AHSC	State	\$5,400,000
HCD IIG	State	\$2,500,000
AHP	Federal	\$860,000
GP Equity	Other	\$250,000
Deferred Developer Fee	City/County (Non-land donation)	\$404,296
Solar Tax Credit	Federal	\$85,800
Tax Credit Equity	Federal	\$22,968,651
Total		\$50,477,533

Source: Pro formas for 46 affordable housing projects made available by the California Tax Credit Committee, 2013-2016; Novin Development and Strategic Economics, 2017.

Figure VI-1. Sample of TCAC Projects Used for the Cost and Funding Analysis



Sample of CTCAC Projects in the Bay Area, 2013-2016

- TCAC Project Included in Sample
- Transit Station
- BART Line
- Caltrain Line
- VTA Light-Rail Line

0 4 8 mi



Source: ESRI, 2017; California Tax Credit Allocation Committee, 2016; Novin Development, 2017; Strategic Economics, 2017.



APPENDIX D: NEW CITY AND COUNTY FUNDING MEASURES

Overview: Table III-2 summarizes the amount of funding expected to be generated regionally from recently approved affordable housing county and city measures in 2015 or 2016. All amounts are estimated on an annual basis, based on a review of each jurisdiction’s website, as described below.

Details on calculations and data sources:

(a) Source: County of Santa Clara, 2016²⁷.

- Santa Clara County Measure A (2016) is a bond measure that is expected to raise \$950 million over 30 years. The county states that \$800 million will be dedicated to VLI/LI housing, and \$150 million to MODI housing. For this study, it is assumed that these amounts will be disbursed over a shorter timeframe, about 8 years to match RHNA cycles.

(b) Source: Alameda County, 2016²⁸.

- Alameda County Measure A1 (2016) is a bond measure that is expected to raise \$580 million bond over 20 years. The county states that \$425 million will be dedicated to VLI/LI rental housing. The remaining portion will be for MODI home ownership (\$120 million) and other innovation funds (\$35 million). For this study, it is assumed that these amounts will be disbursed over a shorter timeframe, about 8 years to match RHNA cycles.

(c) Sources: San Mateo County, 2016²⁹.

- San Mateo County estimates that \$60-\$85 million per year in sales tax will be collected. These funds will be used mainly for transit and affordable. For this study, it is assumed that approximately one third will be dedicated to affordable housing.

(d) Source: City of Oakland, 2016³⁰.

- The City of Oakland estimates that \$100 million will be generated for affordable housing through Measure KK’s infrastructure bond. For this study, it is assumed that these amounts will be disbursed over a shorter timeframe, about 8 years to match RHNA cycles.

(e) Source: City of San Francisco Mayor's Office of Housing and Community Development, 2015³¹.

- San Francisco’s Housing Bond Proposition A (2015) expects to generate up to \$310 million over 15 years. Most these funds will be for low-income housing (\$230 million), while a smaller portion will be for middle income homeownership (\$80 million). For this study, it is assumed that these amounts will be disbursed over a shorter timeframe, about 8 years to match RHNA cycles.

Note: There is no double-counting from having both the new county measures and the average local share in Table II-2 because the new county measures had, in most cases, not passed at the time the sample projects were funded. San Mateo is potentially an exception, since Measure K (2016) allowed for the *extension* of a pre-existing sales tax. In other words, in this case the sum of funding available for housing might not represent net new funding.

²⁷ Santa Clara County, “Santa Clara County Affordable Housing Bond Measure A 2016.”

²⁸ Alameda County, “Alameda County 2016 Affordable Housing Bond Fact Sheet.”

²⁹ County of San Mateo Board of Supervisors, *Measure K (2016) on the November Ballot*.

³⁰ City of Oakland, “Oakland Measure KK: Investing in Oakland’s Infrastructure and Affordable Housing.”

³¹ City and County of San Francisco, “San Francisco 2015 Affordable Housing General Obligation Bond.”

APPENDIX E: IMPACT FEE ANALYSIS

Overview: This Appendix provides the methodology for estimating potential new local revenues that could be generated from adopting residential impact fees on rental housing (Tables VI-2 and VI-3) and commercial linkage fees on office development (Table VI-4 and VI-5).

Table VI-2. Potential Future Revenues from New Residential Impact Fees in the Bay Area

	Possible Scenario (excludes San Francisco)
Average Residential Rental Impact Fee per Unit (a)	\$19,643
Annual RHNA Goal for Above Moderate Units, 2014-2022 (b)	8,302
Percent of Above Moderate Goal Met in Previous RHNA Cycle 2007-2014 (c)	97%
Assumed Share of Units Subject to Impact Fee (d)	100%
Share of All Units in the Bay Area that are Rental (e)	42%
Estimated Annual Residential Impact Fees Contribution (f)	\$66,141,042

Sources and Notes: ABAG, 2014; ACS 5-year estimates 2011-2015; NPH, 2015; 21 Elements Impact Fee Comparison Table, 2016; Strategic Economics, 2017.

Details on calculations and data sources:

- (a) Source: San Mateo 21 Elements, 2016³², Strategic Economics, 2016.
- Documentation on existing impact fees policies in the Bay Area was obtained from San Mateo’s 21 Elements. Table VI-3 provides a summary of existing residential impact fee values on market-rate rental properties. The average fee for all cities is \$19,643.
- (b) Source: 2014-2011 RHNA Goals, ABAG, 2014³³.
- This represents the number of above moderate income units to be built annually in the Bay Area based on RHNA targets for 2014-2022 in each County. This number excludes San Francisco because the City/County already charges affordable housing impact fees.
- (c) ABAG, 2007-2014 Progress in Meeting RHNA, 2014³⁴.
- In the previous RHNA cycle, the target number of required above moderate income units was nearly met (97 percent). It is assumed that a similar trend will continue for the 2014-2022 cycle.
- (d) To provide an optimistic potential total contribution, this study assumes that all new above moderate income rental units will be subject to some type of residential impact fee (except for San Francisco, which already has a fee in place).
- (e) U.S. Census Bureau ACS 5-year estimates 2011-2015.
- This represents the share of all units in the Bay Area that are rental units. This is meant to estimate the share of new above moderate income units that would be built as renter-occupied (and not owner-occupied).
- (f) The total estimated annual contribution from residential impact fees on market-rate rental units is calculated by multiplying rows (a), (b), (c), (d) and (e).

³² 21 Elements, “21 Elements San Mateo Countywide Housing Element Update Kit: Impact Fees.”

³³ Association of Bay Area Governments, “Final Regional Housing Need Allocation (2014-2022).”

³⁴ Association of Bay Area Governments, “San Francisco Bay Area Progress in Meeting 2007-2014 Regional Housing Needs Allocation (RHNA).”

Table VI-3. Summary of Local Residential Impact Fees Adopted in the Bay Area*

County/City	Year Adopted/ Revised	Description	Fee per Dwelling Unit**
Alameda County			
Alameda	1989/2001	Single Family: \$16,601/du; Multi Family: \$13,140/du	\$13,140
Albany	2005	For-sale development only: (Market Value - Affordable Price) x Units Owed	n/a
Berkeley	1993/2016	\$34,000 per du	\$34,000
Emeryville	2014	Rentals: \$28,000/du	\$28,000
Fremont	2015	Residential \$19.50/sq. ft.	\$19,500
Hayward	2003/2015	Single Family: \$4.00/sq. ft.; Condo or Townhouse: \$3.24/sq. ft.	\$3,240
Livermore	1999/2013	Based on unit type, cost, and location.	n/a
Newark	2014	First 1,000 sq. ft. of floor area: \$20.00/sq. ft.	\$20,000
Oakland	2016	Three zones are defined based on market strength, and fees will increase annually over time, as is specified for each zone. Multi-Family Zone 1 (5,500; 11,500; 22,000 target fee per du), Zone 2 (4,550; 9,250; 17,750 target fee per du), and Zone 3 (0; 0; 3,000; 6,000; 12,000 target fee per du).	\$17,500
Pleasanton	1990	Single Family (1,500 sq. ft. or less): \$2,854/du; Multi-family (Apt. or Condo): \$2,854/du	\$2,854
		Average	\$17,279
		Median	\$18,500
		25th Percentile	\$9,810
Santa Clara County			
Cupertino	2015	Single Family: \$15.48 /sq. ft.; Condo: \$20.64 /sq. ft.; Rental up to 35 du/acre: \$20.64 /sq. ft.; Rental over 35 du/acre: \$25.80 /sq. ft.	\$23,130
Mountain View	2002/2015	Market Rate Rentals: \$17.00/sq. ft.	\$17,000
San Jose	2016	Rentals (3 or more units): \$17.00/sq. ft.	\$17,000
Sunnyvale	2015	Residential Rentals: \$17.50/sq. ft.; discount for projects between 4-7 units.	\$17,500
		Average	\$18,658
		Median	\$17,250
		25th Percentile	\$17,000
San Mateo County			
Colma	2016	Rental: \$15.00/sq. ft.	\$15,000
Daly City	2014	Rental: \$25.00/sq. ft.	\$25,000
East Palo Alto	2014/2016	Rental: \$33.71/sq. ft. (inside RBD) and \$44.72/sq. ft. (outside RBD)	\$39,215
Redwood City	2015	Rental: \$20.00/sq. ft. (5 or more net new units for residential projects)	\$20,000
San Carlos	2010	Rental and Single Family: \$21.00 to \$42.00/sq. ft. based on number of units.	\$31,500
San Mateo County	2016 (In Progress)	Single Family Detached 1-4 Unit: between \$5.00 and \$12.50/sq. ft.; 5 units or more: \$15.00/sq. ft.; Townhome/Condo 4 Units or less: \$5.00 to \$12,50/sq. ft.; Apartments \$10.00/sq. ft.	\$10,000
		Average	\$23,453
		Median	\$22,500
		25th Percentile	\$16,250
Bay Area Region			
		Average	\$19,643
		Median	\$18,500
		25th Percentile	\$13,605

*According to Non-Profit Housing Association of Northern California and 21 Elements, no jurisdictions in Contra Costa County currently charge affordable housing impact fees on rental development, although several have inclusionary zoning policies.

**The fee per dwelling unit assumes an average size of 1,000 sq. ft. for each unit, when the fee is calculated per sq. ft. When appropriate, the average of mid-point value was taken when multiple fee options are included in a city's impact fee ordinance. If a single-family housing fee and a multifamily housing fee are both provided, the multifamily fee is used.

Sources: Non-Profit Housing Association of Northern California, 2015; 21 Elements Impact Fee Comparison Table, 2016; Strategic Economics, 2017.

Table VI-4. Potential Future Revenues from Commercial Office Linkage Fees in the Bay Area

	Possible Scenario
Average Commercial Office Linkage Fee per Sq. Ft. (a)	\$12.67
Average Annual Net New Office Space (Sq. Ft.) (b)	3,077,920
Assumed Share of Office Space Subject to Impact Fee (c)	100%
Estimated Annual Commercial Impact Fee Contribution (d)	\$38,983,756

Sources and Notes: CoStar, 2016; NPH, 2015; 21 Elements Impact Fee Comparison Table, 2016; Strategic Economics, 2017.

Details on calculations and data sources:

- (a) Source: San Mateo 21 Elements, 2016³⁵, Strategic Economics, 2016.
 - Documentation on existing linkage fees was obtained from San Mateo’s 21 Elements. A summary table of existing impact fees on office development is included in Table VI-5. The average commercial linkage fee on office for all Bay Area cities is \$12.67 per square foot.
- (b) CoStar, 2016.
 - This value represents the average net new office supply produced annually in Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara combined, based data provided by CoStar on year built of office inventory from 2008 to 2015.
- (c) To provide an optimistic potential total contribution, this study assumes that all new office space will be subject to some type of commercial/office impact fee.
- (d) The total annual contribution from office linkage fees is calculated by multiplying rows (a), (b), and (c).

³⁵ 21 Elements, “21 Elements San Mateo Countywide Housing Element Update Kit: Impact Fees.”

Table VI-5. Summary of Office Linkage Fees Adopted in the Bay Area

County/City	Year Adopted/ Revised	Description	Estimated Fee per Sq. Ft.**
Alameda and Contra Costa Counties			
Alameda	1989/2001	Office: \$4.42 per sq. ft.	\$4.42
Berkeley	1993/2016	Office/Retail/ Restaurant/Hotel Lodging/ R&D: \$4.50 per sq. ft.	\$4.50
Dublin	n/a	Office: \$1.24 per sq. ft.	\$1.24
Emeryville	2014	For any development of non-residential uses for which a discretionary permit or building permit is required: \$4.25/sq. ft.	\$4.25
Livermore	1999/2013	Office: \$768 per 1,000 sq. ft.	\$0.77
Newark	2014	Commercial: \$3.59 per sq. ft.	\$3.59
Oakland	2016	\$5.24 per sq. ft. used for office or warehouse/distribution needs beyond 25,000 sq. ft.	\$5.24
Pleasanton	1990	\$2.87 per sq. ft. (adjusted annually based on CPI)	\$2.87
Walnut Creek	2005	\$5.00 per sq. ft. of commercial development	\$5.00
		Average	\$3.54
		Median	\$3.92
		25th Percentile	\$2.46
Santa Clara County			
Cupertino	2015	Office: \$20.64 per sq. ft.	\$20.64
Mountain View	2002/2015	Office/High Tech/Industrial: \$25.00 per sq. ft.	\$25.00
Palo Alto	2002/2014	Large commercial and industrial: \$19.31 per sq. ft.	\$19.31
Sunnyvale	2015	Office and R&D: \$15.50 per sq. ft. (discounted by half if project is below 25,000 sq. ft., or for first 25,000 sq. ft.)	\$15.50
		Average	\$20.11
		Median	\$19.98
		25th Percentile	\$18.36
San Mateo County			
Colma	2016	Commercial Hotel/Residential/Office/Retail: \$5.00/sq. ft.	\$5.00
East Palo Alto	2016	Office: \$10 per sq. ft.	\$10.00
Foster City	2016	Office: \$27.50 per sq. ft.	\$27.50
Menlo Park	2014	Office and R&D: \$16.15/sq. ft.	\$16.15
Redwood City	2015	Office: \$20 per sq. ft.	\$20.00
San Carlos	2010	Office: \$25 per sq. ft.	\$25.00
San Mateo City	2016	Office: \$25 per sq. ft.	\$25.00
San Mateo County	2016 (proposed)	Office: \$25 per sq. ft.	\$25.00
		Average	\$19.21
		Median	\$22.50
		25th Percentile	\$14.61
Bay Area			Average
			\$12.67
			Median
			\$10.00
			25th Percentile
			\$4.42

*The fee per square foot is summarized for office uses only.

Sources and Notes: ABAG, 2014; ACS 5-year estimates 2011-2015; 21 Elements Impact Fee Comparison Table, 2016; Strategic Economics, 2017.

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