Affordable Housing Funding Gap Analysis

Association of Bay Area Governments

Department of Housing and Urban Development
Regional Prosperity Grant
Housing the Workforce Working Group

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Association of
Bay Area Governments

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How to use this document

This report was completed as part of the Regional Prosperity Plan Consortium's "Housing the Workforce" initiative[1]. For the purposes of analysis, it assumes that each new lower income household, projected between 2010-2040, will be housed in a newly constructed home and pay no more than 30% of their income for housing-related expenses. It is important to note that in high performing regional economies like the Bay Area's, households often pay more than 30% of their income for housing; and obviously, all lower-income households will not move into new homes. This document draws from existing research by University of California Berkeley, the Association of Bay Area Governments (ABAG), and others, to estimate the subsidy gap for development of affordable housing throughout the nine-county Bay Area (Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, Sonoma) and to identify feasible strategies to fill that gap. While we recognize that individual families struggle to find homes that are affordable to them, this research focuses on a set of governmental actions that can subsidize and ease the development of affordable housing, not on individual options.

Broadly, we seek to answer the following questions:

- What funding strategies and policy changes could reduce or close the Bay Area's gap in subsidies for new affordable housing development?
- What are the potential impacts of existing strategies and new legislation at the federal, state, regional and local levels to close the gap?

The research and strategies presented in this document are not meant to answer each question comprehensively, but to provide a starting point for discussion

It is our intent that this document be the first step in a larger body of research that will help local governments meet the growing challenge of fully housing the regional population and workforce.

[1] The Regional Prosperity Consortium is sponsored by a HUD Sustainable Communities Planning Grant obtained by MTC and ABAG in 2011.

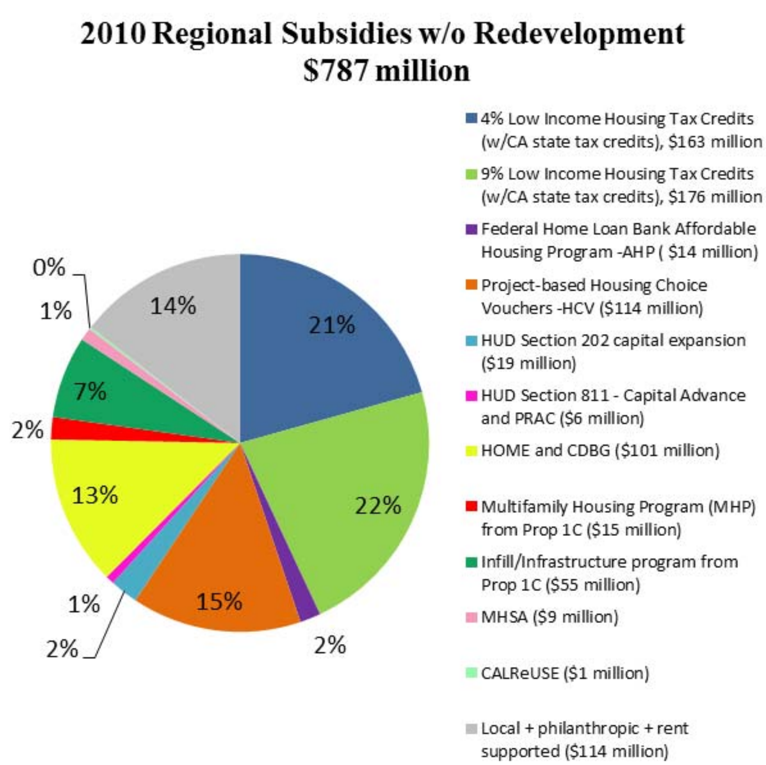
Executive Summary

The Bay Area's housing affordability gap is a chronic prosperity-threatening condition, currently in an acute episode. Meeting this chronic challenge will require multiple treatment strategies—most notably, housing production, affordable housing production and strategies that enable Bay Area seniors to age in place in their homes, Bay Area renters to stay in place in their home neighborhoods, and residents in new transit-oriented neighborhoods to reflect the Bay Area's rich cultural and occupational diversity, which is essential to our prosperity and quality of life.

Remedies are always works-in-progress; however, the scale of current remedies does not match the scale of our chronic housing affordability challenge. One purpose of this report is to highlight this asymmetry by quantifying a critical funding shortfall for one very important "treatment strategy," affordable housing development. This report estimates the need for affordable housing development subsidy at $4 billion annually, and the shortfall at $3.2 billion.

Closing the *affordable housing development subsidy gap* will require focus and innovation in addition to diligent application of all strategies currently in use in communities throughout the Bay Area. This report reviews *current strategies in use* and *identifies three additional strategies* for further innovative exploration which together could close the gap. Closing the more general *housing affordability gap* will require similarly intense focus, commitment and innovation on multiple strategic fronts, which are outside the scope of this report.

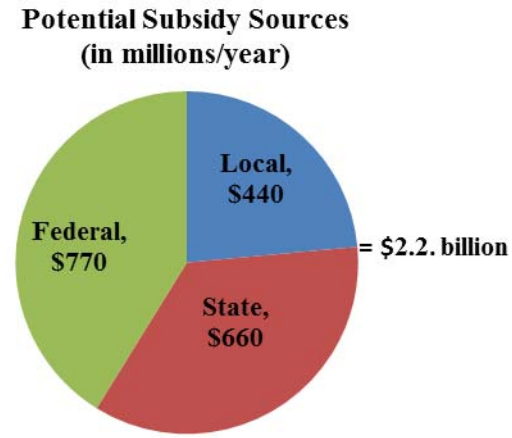
The Bay Area will need to produce 660,000 new housing units through 2040 to accommodate its projected population growth and future workforce. Over 371,000 or 56 percent of these housing units will need to be affordable to low and very low income Bay Area residents. Market rate development alone will not meet this demand; it must be complemented with affordable housing development. This requires subsidy.



State and federal housing subsidies, crucial to building and keeping housing affordable, have largely evaporated. Over the past five years federal programs have been slashed between 30 to 50 percent while California's Redevelopment Agencies, which formerly contributed $1 billion annually to affordable housing statewide, have been eliminated. The region now produces or attracts about $800 million worth of housing development subsidies annually. This is about one-fifth of the subsidy necessary—about $4 billion annually— to build enough affordable rental housing to accommodate rental housing for the Bay Area's projected growth in lower-income households. Currently the Bay Area's affordable housing development subsidy gap is about $3.2 billion annually.

The Affordable Housing Funding Gap Analysis provides an initial vision for how the region might raise $2.2 billion worth of housing subsidies per year to close 70 percent of its identified subsidy gap.

The first of these strategies is promoting local and subregional approaches to developing housing solutions.



ABAG researched two model regional housing trust funds - the Housing Endowment and Regional Trust of San Mateo County (HEART) and A Regional Coalition for Housing (ARCH) in Washington State. These trust funds enabled their member jurisdictions to pool resources in order to raise funds for affordable housing development, and increase community acceptance as well. This strategy has the potential to enable every Bay Area county to better plan for and devote local level resources to affordable housing. We estimate the funding potential latent in this approach to be as high as $440 million per year.

The second strategy we examined is to sale up a regional housing fund, springboarding off the successful Transit Oriented Affordable Housing Fund (TOAH).

Formed through a public-private partnership between the Metropolitan Transportation Commission (MTC), Community Development Financial Institutions (CDFIs), banks, and foundations, the TOAH is an established and trusted regional source of subsidized affordable housing loans. The fund makes available $100 million from private and philanthropic sources, most of which would not otherwise be invested in housing. In the long run, TOAH or a TOAH-inspired successor, could function more like a regional housing trust by becoming a home for future philanthropic housing contributions at the regional scale to complement subregional housing trust funds. We estimate such a fund's potential capitalization to be as high as $330 million per year.

The third strategy we considered is linking award of regionally-allocated non-housing dollars to housing production.

Aligning the provision of non-housing funds such as parks and transportation to housing production has encouraged local cooperation in planning for and incentivizing housing development. Regionally the One Bay Area Grant Program (OBAG) provides jurisdictions with money for local roads and streets only if they meet certain housing criteria which includes a state certified housing local housing plan, their Housing Element. This approach has proven to be a strong incentive for jurisdictions to secure timely certification of their Housing Elements that address local housing issues. In the future additional transportation dollars or other non-transportation dollars could be conditioned upon planning that strongly supports housing production. We have not attempted to quantify the potential subsidies raised through this approach.

While these strategies could go a long way towards closing the gap the federal and state governments can and must continue to play a major funding role.

Given spending trends over the past decade we believe there may be room to tie affordable housing production to other crucial public interest goals such as decreasing congestion, cutting greenhouse gas emissions, and improving health, environmental, and educational outcomes. These could potentially result in innovative funding partnerships:

Potential State Sources
(up to $660 million/year)

- New state affordable housing trust fund
- Cap and Trade Dollars
- Changes to Medi-Cal dollars to build supportive housing

Potential Federal Sources
(up to $770 million/year)

- Environmental Protection Agency
- Department of Transportation
- Housing and Human Services – Medicare
- Department of Education

This report is a first iteration. Future research will explore the feasibility of these and other promising regional approaches to close the regional housing affordability gap and the regional affordable housing development subsidy gap.

Affordable Housing Funding Gap Analysis & Initial Strategies Investigated

Introduction

The State of California's Sustainable Communities and Climate Protection Act of 2008 (SB 375), requires each of the state's 18 metropolitan planning regions to adopt and implement a Sustainable Communities Strategy (SCS) in order to alter each region's land use pattern in ways that decrease overall greenhouse gas emissions statewide. In the Bay Area the adopted SCS is Plan Bay Area (PBA), an integrated land-use and transportation plan which guides new development to locally designated Priority Development Areas (PDAs).

The success of Plan Bay Area hinges on local creation of mixed-wage employment opportunities and meeting regionally-identified housing needs by household income levels in these infill areas, which in turn hinges on local and regional investment in public transit, affordable housing development and preservation of existing affordable housing units.

To help ensure that the growth and development described in Plan Bay Area is equitable, community stakeholders and ABAG/MTC secured a $5 million three-year Sustainable Communities Partnerships grant from the Department of Housing and Urban Development (HUD). The grant program challenges the Bay Area to come up with a Prosperity Plan to strengthen communities by integrating housing and jobs planning, fostering local innovation and building a clean energy economy. The plan centers on three interrelated areas of work: Economic Prosperity, Housing the Workforce, and an Equity Initiative. The Equity Initiative will ensure broader participation of under-represented groups in the outreach, technical analysis, policy and program development and decision making process. The Economic Prosperity Strategy will define a regional approach for expanding economic opportunities for low and moderate-income workers. The Housing the Workforce Initiative will provide tools and resources to improve housing affordability near transit and stabilize low-income neighborhoods as new investments raise property values. This Affordable Housing Financial Gap Analysis is funded as part of the the Housing the Workforce initiative.

Affordable Housing Funding Gap Analysis:

Development or preservation of cost-restricted[2] affordable housing requires subsidy.[3] While existing subsidy sources are not sufficient relative to need, recent developments have exacerbated an already dire situation:

- Between 2009 and 2012 locally administered federal sources of funding (approximately $101 million annually including the Community Development Block Grant, the HOME Investment Partnerships Program, HOPE VI and Choice Neighborhoods) saw a decline between 27-50%. These funds are under the threat for additional cuts.
- In 2012 the State dissolved its Redevelopment Agencies ending $1 billion worth of affordable housing subsidies annually.
- The two state bonds which collectively provided $4.9 billion for affordable housing development (Proposition 46 and Measure 1C) were one-time funds and are oversubscribed.

These lost billions represent a tremendous blow to the region in terms of affordable housing production and must be at least partially replaced if Plan Bay Area is to be implemented successfully. In short, the success of Plan Bay Area as the region's sustainable communities strategy (SCS) and by extension the effectiveness of SB 375 which requires the SCS to be prepared, depend on the adequate availability of subsidy funds to produce affordable housing throughout the Bay Area region.

As one component of the Housing the Workforce Initiative this report aims to (a) identify the gap between current resources and the additional funds needed for affordable housing development and preservation, (b) inventory regional and local mechanisms to close the gap, and (c) identify those strategies that appear to be most suitable for consideration by regional agencies, local governments, and housing organizations.

This report provides a summary of the results of analysis to date:

- Part I quantifies the amount of regional funding available for affordable housing development and determines the funding gap.[4]
- Part II provides an overview of gap financing methods currently in use at the local level for affordable housing development as well as new avenues to explore.

[2] Properties that are required to limit the rental and mortgages they can collect from their residents in relation to their income level.
[3] The totality of local, state, and federal programs that decrease the total development cost of a unit of affordable housing including state and federal financing programs (tax credits, tax exempt bonds) as well as grants to affordable housing developers.
[4] This work was previously considered in October 2012 at the Regional Planning Committee (RPC).

- Part III summarizes the result of research conducted to date which explores three strategies that appear to be the most suitable for regional attention.
- Appendices:
    - Appendix I provides a survey of affordable housing policies presently enacted in Bay Area jurisdictions.
    - Appendix II provides a summary of legislative proposals currently under consideration at the State level with implications for affordable housing funding.

Key Terminology:

Before proceeding it is important to define certain key terminology that is used throughout the report. A more detailed glossary can be found at the end of the document.

Affordable housing: A home is considered "affordable" if it costs no more than 30 percent of a household's annual income. Affordable homes are required to limit their rents and mortgages for a period between 15 to 55 years. Such properties, which are required to limit rents for 15 to 55 years (or for homeowners, the resale price),are built by private and nonprofit developers for middle and low income households. These are households making not more than 80 percent of their area's median income level, which in the Bay Area varies according to the city/county, but is an average of $62,000 per year.

Cost-restricted affordable housing: See affordable housing.

Subsidies: The totality of funds necessary to make up the difference between the total development cost and the amount of debt financing that can be supported by residents' rent. This includes loans and investments from state and federal financing programs (tax credits, tax exempt bonds) as well as grants, loans and investments from "local" (i.e., regional, subregional, city) public and private sources.

Subsidy Gap: The total difference, for the Bay Area, between the subsidies available for new affordable housing development and the subsidies needed to cover the total development costs of all new affordable housing projects needed to house the Bay Area's projected workforce through 2040.

PART I: Estimating the Bay Area's Housing Need and Funding Gap

Introduction

By any one of several measures, there is currently a "housing affordability gap" in the Bay Area. A full 43% of Bay Area households are overpaying for housing[5] with 23% seriously over-paying. Many of these households would be excluded from the housing market altogether if they did not pay such high proportions of their income into housing. Overcrowding[6] is also relatively common in the Bay Area with 6% of all households considered overcrowded and some communities experiencing particularly severe overcrowding such as households in East Palo Alto (29%), San Pablo (16%), and Daly City (13%) .

As billions in subsidies for affordable housing development from the state and federal governments have evaporated, the housing subsidy gap is likely to get worse. Plan Bay Area projects growth of 1.1 million jobs and 660,000 new housing units by 2040. Translating projected job growth by industry and occupation to derive household wages, the Plan estimates that at least 56% of all new households may be very low or low income. The housing market is not currently producing new housing that will be affordable to these households, and, given its historic inability to meet housing targets, is unlikely to in the timeframe of Plan Bay Area[7] without proactive policy interventions.

Table 1. Projected Housing Need by 2040

	Very Low Income *0-50% AMI*[8]	**Low Income** *51-80% AMI*	**Moderate** *81-120% AMI*	**Above Moderate** *Over 120% AMI*	**Total**
Housing Need 2040	224,400	147,000	99,200	189,400	660,000

In very broad terms, the "housing affordability gap" at a regional level could potentially be reduced by:

- Increasing the housing supply enough to drive down housing costs
- Increasing wages enough to cover high housing costs

5 Overpayment is defined by the US Census as spending 30% or more of one's household income in housing costs for rentals and 38% or more for homeowners. Serious over-payment is defined as spending 50% or more of one's household income in housing costs. These figures include both rental and ownership properties.

6 Overcrowding is defined by the US census as having more than one person per room in a house with the exclusion of kitchens and bathrooms. Severely overcrowded households have 1.5 persons or more per room. By having to accommodate greater numbers of people than what a unit was designed for overcrowding puts pressure on existing housing stock.

7 "A Place to Call Home." Association of Bay Area Governments, 2007

8 Area Median Income. For income levels across the Bay Area region see table i in the glossary of key terms.

- Resetting expectations and policy guidelines regarding floor space per dwelling unit, persons per room and housing costs and a percentage of income
- Increasing the supply of cost-restricted housing

It is important to note, however, that these actions and policy interventions have differing effects and that not all are appropriate for specific communities across the region.

Increasing the housing supply to drive down costs: Tremendous construction activity would be required to build enough housing so that prices become affordable to the Bay Area's current and future low and very low income households.[9] For example, in order to make 25% of San Francisco's current housing stock affordable to low income families, the city would need to produce over 100,000 net new housing units in the next 20 years – a scale of construction unseen since the 1920s[10] and necessitating an annual rate of construction unseen since the 1960s. If this approach were to be extrapolated on a regional scale it would mean several hundreds of thousands of market-rate residential projects continuously under construction shared across nearly all of the communities across the region for the next 20 years. Such construction activity would require major regulatory changes, most of which would need to be adopted by local residents at the city or county level. Voters in many of these jurisdictions have historically shown unwillingness to adopt such sweeping changes.

Increasing wages enough to cover high housing costs: Barring major changes to the region's economy in the next thirty years, 56% of the Bay Area's future households are expected to be low-income. To respond to the realities of an "hourglass economy" –an economy that has many high paying and low paying jobs with few in the middle – ABAG/MTC and its regional partners are evaluating ways that the region could create living wage jobs. However even accounting for what is considered "living wage" such jobs are unlikely to pay enough to fully cover housing costs at present values.

Resetting expectations and policy guidelines regarding floor space per dwelling unit, persons per room and housing costs and a percentage of income: Even taking into account typical accommodations to cost pressures in open-market housing (e.g., smaller units, less desirable neighborhoods, more people per unit, greater proportion of income), the need for affordable housing far exceeds the supply likely to be generated with such changes.

The three policy approaches are summarized to give a sense of the range of theoretical market-based ideas about increasing affordability, this report focuses exclusively on closing the housing

[9] These are households making less than 50% of their area's median income level
[10] "Housing For San Francisco Residents." Mayor's Office of Housing, Controller's Office, Office of Economic and Workforce Development. City and County of San Francisco, 2012

affordability gap through production of cost-restricted housing[11], or affordable housing[12] as developed by for-profit or nonprofit developers, and further, focuses exclusively on the developmental subsidy that would be necessary to produce enough affordable housing to accommodate households comprising workers holding the new jobs forecast in Plan Bay Area.[13]

Limitations of Analysis

We based this report on several additional assumptions in order to simplify exposition and assure that estimates are conservative:

- *Our approach does not discuss the existing supply gap for needed housing that is affordable relative to Bay Area incomes*. Unfortunately on a consistent basis there has been an under-production of very-low, low and moderate income housing relative to RHNA-identified needs for many years. As a result, this report intentionally under-estimates the scale of the problem and the magnitude of resources necessary to address it.

- *The analysis excludes subsidy to produce affordable housing for moderate-income households (80% to 120% of area median income).* Although a gap exists for moderate income households, they typically have more housing choices than lower income groups and some new construction across parts of the region will be affordable to them.[14] Within more expensive housing markets in the region, local inclusionary housing programs often do provide some degree of new housing opportunities through mixed-income development projects.

- *The analysis assumes no public subsidy to produce affordable housing for above-moderate-income households (above 120% of area median income).* Historical housing production patterns in the Bay Area show that the market has produced primarily above-moderate housing. We assume individuals and families at this income bracket are able to afford housing, even though

[11] "Cost-restricted housing" or "affordable housing" refers to properties that are required to limit the rental and mortgages they can collect from their residents in relation to their income level.
[12] For the purposes of this discussion "affordable housing" refers to housing for which costs are restricted on a long term basis. This type of housing makes up approximately 1% of the Bay Area's total housing stock.
[13] Affordable housing development is the primary means through which very-low, low-income, and moderate income housing is produced across the Bay Area. We expect affordable housing to remain the means through which these groups are housed over the next 30 years.
[14] While moderate income households have fewer subsidies than very low and low income households, moderate income homes are more likely to be built by market rate developers without additional subsidies as in the case in San Francisco's BMR (below market rate) program. Some areas will be naturally affordable. Additionally, developers of these types of homes may have access to private capital sources such as Canyon Capital Realty's $800 million multifamily housing fund which purchases and rehabilitates properties for this income range.

some may have to "over-pay"[15] in certain high-cost sub-markets and there would be somewhat fewer choices to purchase houses in inner Bay Area urban localities.

- *The analysis does not take into account shifts in housing-type preferences due to changing demographics*[16]. Due to reduced attractiveness of auto-dependent neighborhoods and increased attractiveness of urban areas across age groups, as well as the reduction in purchasing power among younger Bay Area residents, demand is expected to increasingly shift from for-sale single family detached houses to common-wall housing types and rentals closer to transit.

From any angle, the Bay Area has a major need for affordable housing and very few resources with which to build it. Building on our work to date, we next provide an analysis of existing sources of funding for affordable housing and estimate the regional funding gap to meet Plan Bay Area's mandatory goal of housing the region's projected population growth by income level.

Estimated Subsidy Required for the Bay Area

Given that per-unit costs for land, entitlements, construction and financing differ considerably between projects and throughout the Bay Area, we estimated the annual regional subsidy necessary to build affordable housing as a range. This range was determined through a survey of 27 affordable housing developments built in the Bay Area between 2007-2012 representing a variety of project types (e.g. type of construction, level of affordability and unit size). These developments yielded a total of 2,063 housing units of which 999 were for very low income households (≤ 50% of AMI) and 604 were for extremely low income households (≤ 30% of AMI). We believe this sample to be representative of the low and very low income housing units built in the Bay Area during this five year period.

Table 1.2 summarizes the low, average, and high per unit developmental subsidies[17] needed to build one unit of affordable housing in the Bay Area (i.e. to fully fund its total development cost). We extrapolate these per unit costs to estimate the total annual subsidies needed to fully build the future housing supply needed by the Bay Area's future workforce.

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[15] Most Bay Area households (43%) including those making more than 120% of AMI pay more than 30% of their income for housing costs.

[16] According to Plan Bay Area, over the next thirty years the Bay Area's population is expected to become older and more diverse which is expected to change the housing type preferences across the region.

[17] We define subsidies as the totality of funds necessary to make up the difference between the total development cost and the amount of debt financing that can be supported by residents' rent. This includes loans and investments from state and federal financing programs (tax credits, tax exempt bonds) as well as grants, loans and investments from "local" (i.e., regional, subregional, city) public and private sources.

Table 1.2 Annual Subsidies Needed for Affordable Housing in 2010 dollars to achieve 30 year Plan Bay Area targets (billions $)[18]

	Developmental Subsidies	**Very Low Income**	**Low Income**	***Total***[19]
Relative to Range	Total Subsidy Cost per unit	**224,400 du**	**147,000 du**	***371,400 du***
low	$223,000	$1.7 b/yr	$1.1 b/yr	**$2.8 b/yr**
average	$329,000	$2.5 b/yr	$1.6 b/yr	**$4.1 b/yr**
high	$611,000	$4.5 b/yr	$2.9 b/yr	**$7.4 b/yr**

From the relative costs of these projects we determined that to fully house our region's projected additional lower income households ($\leq$ 80% AMI) the Bay Area would require between $2.8 billion and $7.4 billion annually in subsidies. On average this would represent $4 billion annually.

Sample of 27 Projects

The sample projects relied on a total of 47 funding sources, with the bulk of these subsidies originating from federal and state sources.[20] The top project funding sources (84% of all project funding) are summarized in **Table 1.3**:

Table 1.3 Top Sources of Subsidy for 27 projects

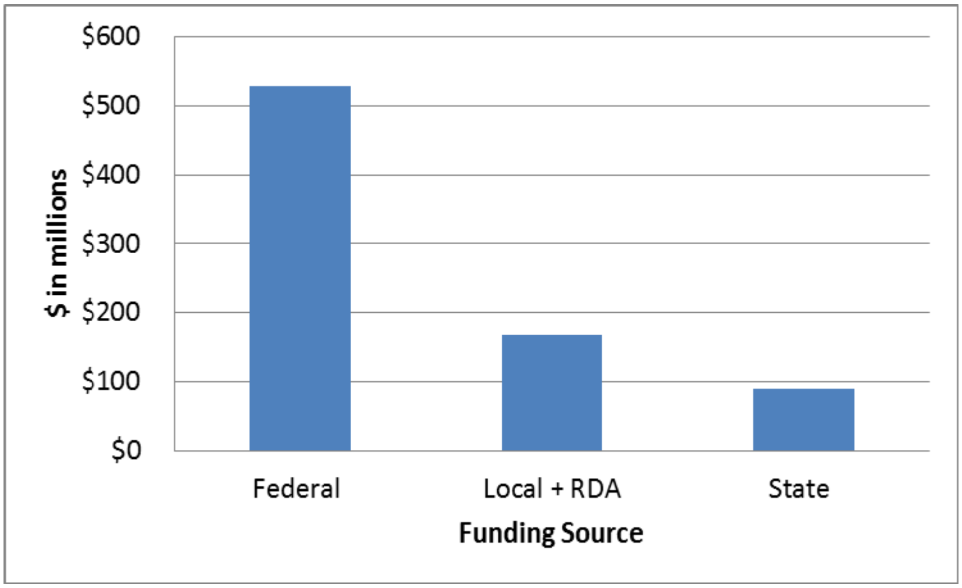
Name of Source	Level/Category	Dollar Amount (for 27 projects)	Percentage of all funding
1. Tax Exempt Bonds (TEBs)	Federal	$ 192,000,000	24%
2. 4% Low Income Housing Tax Credit (LIHTC)	Federal	$ 128,000,000	14%

18 Based on a survey of 27 housing projects built between 2007-2012.
19 Annual costs over a 30 year period
20 These sources include some no longer available such as redevelopment, various Proposition 1C programs and ARRA (American Recovery and Reinvestment Act) funding.

3. 9% LIHTC	Federal	$	112,000,000	12%
4. Other local	Local	$	91,000,000	10%
5. Multifamily Housing Program (MHP)	State	$	90,000,000	10%
6. Redevelopment Agencies (RDA)	Local	$	77,000,000	8%
7. ARRA (American Recovery and Reinvestment Act)	Federal	$	68,000,000	7%
8. Sec 202	Federal	$	28,000,000	3%
Total Subsidy		$	786,000,000	84%

Federal dollars represented $528 million of the top 10 funding sources, local funds which included redevelopment accounted for $168 million and state dollars accounted for $90 million of the top 10 funding sources.

Table 1.4 Top 3 Subsidy Funding Sources for 27 Projects

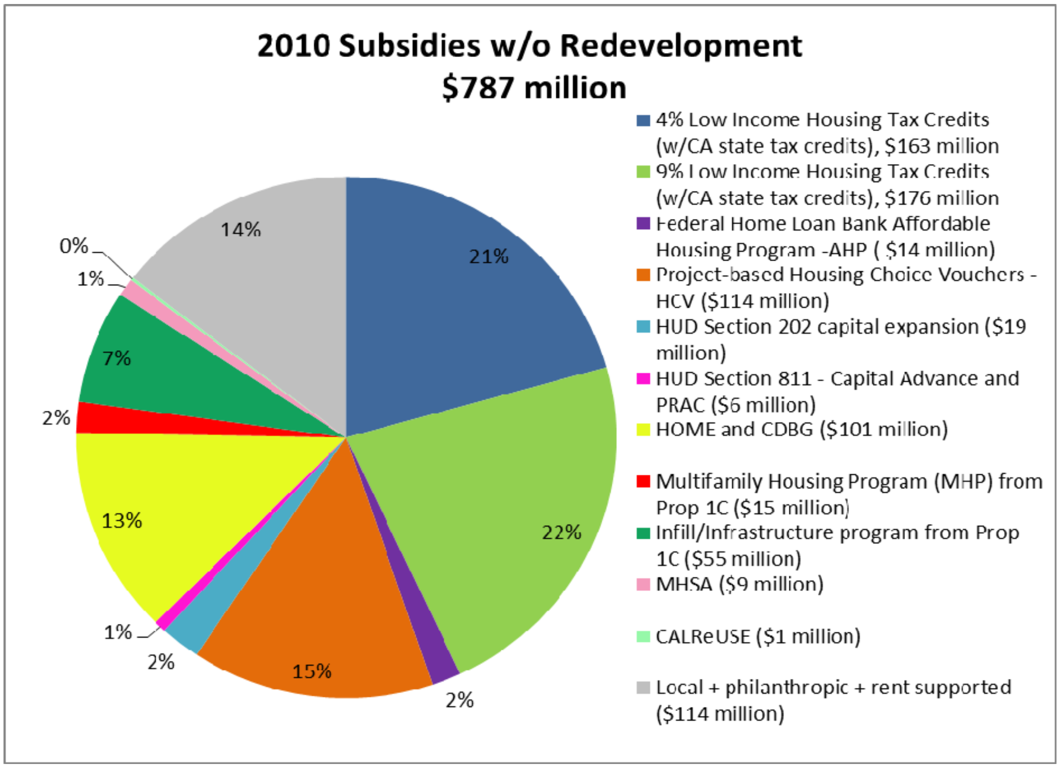


Federal funds were easily the largest single source of funding for these 27 projects, followed by local sources with Redevelopment agencies, and state funding sources being the third highest ***(as shown in table 1.4).***

Total Estimated Annual Subsidy Available[21] for the Bay Area

With Redevelopment the total developmental subsidies available in the Bay Area totaled an estimated $1.1 billion per year.[22] However the 2012 dissolution of Redevelopment and the expenditure of various state programs funded by Proposition 1C cost the Bay Area around $300 million in direct and leveraged subsidies. Projecting 2010 dollars through 2040 (excluding redevelopment agency funds), federal, state, and local affordable housing subsidies total less than $800 million annually:

Figure 1.5 Bay Area Subsidies without Redevelopment Agencies (2010 est.)[23]



Source: Survey of 27 Affordable Housing Developments built in the Bay Area built between 2007-2012

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[21] Notes on methodology:

- Uses RHNA categories and assumes households pay 30% of their income for housing
- Measures the regional impact of redevelopment indirectly, does not include other expiring programs, or potential impacts of new legislation
- Based on survey of 27 affordable housing projects built since 2006
- Includes a variety of project types, including type of construction, level of affordability, unit size, across the Bay Area
- Includes estimated total subsidy amount for affordable housing in the Bay Area including rents paid by lower income households (≤ 80% ami) that support project operations

[22] 2010 represents the latest year for which we possess complete funding data.

[23] This is a snapshot of what was available in 2010 when the original survey of 27 projects was conducted. Since then several state programs formerly funded through Proposition 1C dollars have been fully spent and various federal programs been cut between 27-50%.

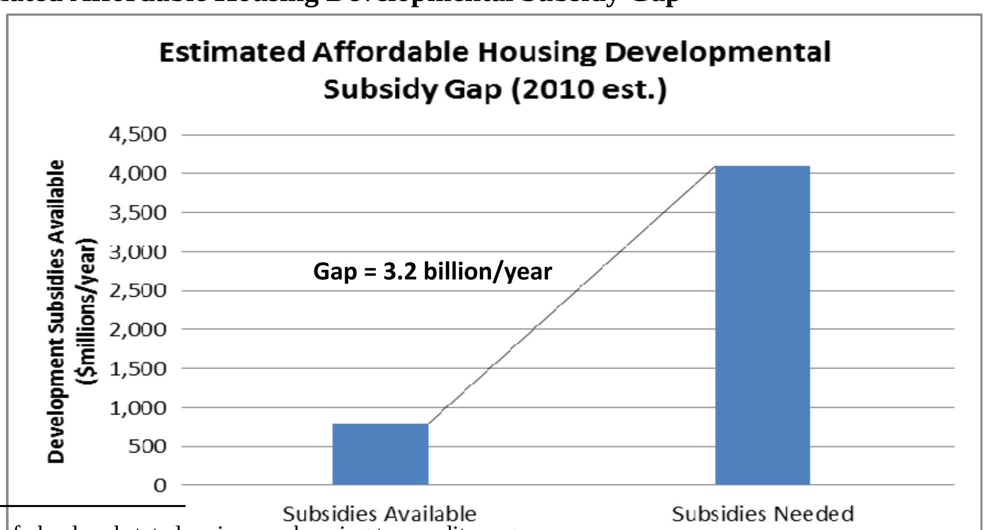
The largest sources of funding for affordable housing development will likely continue to be federal low-income housing tax credits, which in 2010 provided $339 million (43%) of the region's total affordable housing funds.[24] Various state programs contributed $80 million (10%) of the region's overall affordable housing dollars. Locally administered federal subsidies (e.g., HOME, CDBG) provided $101 million (13%), Housing Choice Vouchers – also known as Section 8 – comprised another $114 million (14.5%), while other local programs including inclusionary zoning, and housing trust funds, provided $114 million (15%). The remainder is comprised of various federal programs including subsidized loans and capital expenditures.

Following full expenditure of the one-time state affordable housing bonds (Proposition 1C and Measure 46), subsidies for affordable housing development are expected to decline and remain below historical levels. In fact, no funding category is trending upward. Therefore estimating the total subsidy available annually at the 2010 level of $787 million, and rounding it up to $800million will almost certainly represent a conservative estimate of the subsidy gap.

Estimated Subsidy Gap

We estimate the total developmental subsidies available for affordable housing development in the Bay Area to be $800 million and we subtract it from an identified average funding need of approximately $4.1 billion. The resulting subsidy that the region needs to attract is $3.3 billion annually, in the middle of a range from $2.0 billion to $6.8 billion. We do not expect the region to be able to fully fill this subsidy gap alone, going forward this analysis incorporates expected state and federal contributions.

Figure 1.6 Estimated Affordable Housing Developmental Subsidy Gap



[24] These include both federal and state low income housing tax credit programs.

Part II: Affordable Housing Subsidy Source Strategies

Since the dissolution of California's Redevelopment Agencies, local jurisdictions have been scrambling to fill the sizeable development subsidy gap. In this section we provide a brief analysis of twenty local strategies for addressing housing affordability, including sources of affordable housing development subsidy, that appear to be most applicable for Bay Area jurisdictions. A comprehensive list of most of the local strategies in use by jurisdictions in the Bay Area may be found in Appendix I

The technical capacity for each of the strategies to generate funding or reduce the need for funding, that is, their potential impact, varies widely. And the funding potential for any particular strategy varies widely depending on assumptions. Finally, the political feasibility of each strategy is untested and would undoubtedly depend on assumptions and technical features. Therefore, the following survey of strategies does not assess the political feasibility of each.

At present the categories of subsidy these strategies represent—state plus local, excluding locally-administered federal—account for around $200 million of the present $800 million per year currently available, compared to a gap estimated to be around $3 billion annually. Collectively these strategies may have the capacity to raise the requisite funds to close the gap; although that would require a fifteen-fold increase over current funding levels. Our ability as a region to realize the capacity latent in these strategies will be critical to our achievement of policy targets presented in Plan Bay Area.

Survey of promising local and regional policies affordable housing production and preservation strategies

The policies highlighted below and summarized in the tables that follow are either in place in the Bay Area or are promising approaches that would be new to the Bay Area.

Local Funding and Production Strategies

1. Inclusionary Zoning
2. Housing Impact Fees (local housing trusts)
3. Commercial Linkage Fees
4. Land Value Recapture/Public Benefit Zoning
5. Permit Streamlining
6. Reduced Fees or Waivers
7. California's Density Bonus Law
8. Post Redevelopment "Boomerang" Funds

Local Affordability Preservation Strategies

9. Just Cause Evictions
10. Rent Stabilization
11. Condo Conversion Restrictions
12. Workforce Proximity Downpayment Assistance
13. Permitting of secondary units

Regional/State Funding and Production Strategies

14. Expanding TOAH
15. Using Private Capital for Affordable Housing
16. State Housing Trust Fund
17. Cap and Trade funds
18. Tying non-housing funds to housing development
19. Subregional solutions for affordable housing development
20. Quality of Life Ballot Measure

Current Prevalent Strategies

The following strategies[25] for funding and preserving affordable housing have been successfully employed throughout the Bay Area. While increasing affordable housing development dollars is essential, some of the options detailed here involve non-monetary approaches to preserving the existing affordable housing stock as well as encouraging further housing development. We only provide a brief definition of these sources in this document, but a complete list of Bay Area jurisdictions and their respective affordable housing strategies can be found in *Appendix I*. Additionally, while we present the potential funding impact of these approaches, these representations are for discussion purposes only. **As a regional planning and research agency ABAG could provide research, advocacy, and technical assistance for local jurisdictions seeking to implement any of these interventions.**

Table 2.1 Prevalent Housing Strategies

Funding Strategies

	Description	Potential $ generated[26]	Examples (not exhaustive)
Inclusionary Zoning	Requirement that market rate developers include as a condition of development a certain number of below market rate units (whether rental or for sale)[27].	Local adoption of in-lieu fee of $10,000 /unit could raise $174 million/yr regionally. Subsidy equivalent of rental BMTR units, if built would typically be greater than in-lieu fees.	68 Bay Area jurisdictions have some sort of inclusionary ordinance in place.[28]
Housing impact fees (local housing trust funds)	Fees imposed on residential developers on a per unit or a per square foot basis as a funding source for affordable housing.	Local adoption of a $5/sq ft housing impact fee on market rate developments could raise $106 million/yr regionally	Berkeley, Mountain View, Fremont, San Jose, San Francisco
Commercial linkage fees	Fees charged to non-residential development (whether commercial, or industrial) typically on a per square foot basis as a	Local adoption of a $5/sq ft on commercial real estate could yield	Livermore, Mountain View, San Francisco,Walnut Creek

[25] The definitions employed here were provided in the form of a list by the Nonprofit Housing Coalition of Northern California.

[26] For a breakdown of the calculations used and the sources of figures please refer to technical appendix

[27] The State Supreme Court ruling in Palmer/Sixth Street Properties v. City of Los Angeles throws into question whether local jurisdictions can require the development of affordable rentals in market rate properties. The Court did maintain that jurisdictions can charge impact fees to be used in the construction of affordable rentals. Jurisdictions can still require below-market-rate units in for-sale properties. Efforts are currently underway statewide to clarify Palmer and allow jurisdictions to require affordable rentals.

[28] California Rural Housing Coalition. Inclusionary Housing Database. Retrieved from http://www.calruralhousing.org/,October 2013

	source of funds for affordable housing.	$38 million/yr regionally	
Land Value Recapture/Public Benefit Zoning	Proposals that seek to return a portion of the increase in property values created in part by public actions through land use decisions (e.g. rezonings) or public investments (e.g. transit infrastructure) to affordable housing.	Local adoption of a $5/gsq ft for upzoning or changes in FAR could yield $11 million/yr regionally	San Francisco
Production Strategies			
Permit streamlining	Provides for a faster permitting approval process for developers of affordable housing.	Effect varies by city. Increases supply of housing as construction costs are decreased.	Cupertino, Los Altos
Reduced fees or waivers	Provides waivers or reduced fees to affordable housing developers for many regulatory processes.	Depends on jurisdiction size and fee decrease – could decrease per unit costs by as much as $40K.	Mill Valley, Larkspur, San Francisco
California's Density Bonus Law	Allows market-rate developers of affordable housing up to 35% additional units than would otherwise be locally permissible.	Could yield $1.53 billion/yr worth of units if developers build 20% affordable. Also resulting addtl density would increase supply and decrease overall prices.	Most local jurisdictions have an ordinance that allows it
Preservation Strategies			
Just cause evictions	Landlords are only able to evict tenants if they meet one of the "just cause" requirements. Lowers risk of displacement.	Non-monetary, but reduces incremental demand for affordable rental housing.	San Francisco, Oakland
Rent stabilization	Landlords are only able to raise rents by a certain percentage, defined at the jurisdictional level, per year.	Non-monetary, but reduces incremental demand for affordable rental housing.	San Francisco, Hayward, Oakland, Berkeley
Condo conversions restrictions	Places restrictions on the conversion of apartments under the ownership of a sole property owner into condominiums in which the individual unit can be sold at market rate.	Non-monetary, but reduces incremental demand for affordable rental housing.	San Francisco, Corte Madera, San Rafael
Permitting secondary units	Secondary units, often called "in-law" units are typically small additional units built by the market within existing properties.	Non-monetary, but reduces incremental demand for affordable rental housing.	San Francisco, San Rafael

	As these units are built within existing properties at a lower cost than new construction, they are considered naturally affordable.		
Workforce Proximity Downpayment Assistance	Program helps first time home buyers interested in living in a given jurisdiction down payment assistance if the home that is purchased is within 15 miles of a work location within the jurisdiction.	Depending on the terms of the program, could make existing housing stock more affordable to population	Napa County

Strategies which need the least time to implement and have the greatest funding potential:

The strategies we identify below appear to be some of the most viable local options that could be implemented relatively quickly.

Table 2.2 Short Term Funding Strategies

Strategy	Description	Potential $ Raised	Actor	Examples
Post Redevelopment "Boomerang Funds"	Reapportions remaining Redevelopment Authority tax increment dollars for affordable housing. This potentially represents tens of millions for affordable housing.	$32.5M in one-time funds (13% of original $250 M amount)	Local jurisdictions	San Francisco Housing Trust Fund (Prop. C 2012), Oakland Housing Trust Fund (Budget FY 2013-14), San Mateo County
Expanding the Transit Oriented Affordable Housing Fund (TOAH)[29]	Reapportion some existing regional funds for additional leverage in the TOAH. Would expand funding available for housing development loans.	Addtl. $2M regional investment could yield $8M in addtl leverage	MTC, ABAG	N/A

[29] The Transit Oriented Affordable Housing Fund (TOAH) was created in 2011 as a public-private partnership to fund affordable housing development and community services in transit accessible areas in the Bay Area. The TOAH offers loans at below-market rate interest rates to affordable housing developers whose chosen affordable housing sites meet certain criteria.

Private Capital	Work with private lenders to lower interest rates and work with foundations and charitable organizations to provide sources of affordable loans.	Varies (no cap on financially viable amount)	Foundations, Banks, CDFIs, Governments	**Canyon Capital Realty Advisors + Citi Community Capital**: $800M partnership to fund Multi-family "workforce" housing **Citi and L+M development Partners ($150M**) **Golden State Acquisition Fund:** $96M acquisition fund for affordable properties in CA. **TOAH:** Public private partnership ($90 M with new capitalization from MTC)

Additional Ideas:

From our research we identified funding possibilities sources below as promising for the Bay Area given the interest that has been expressed in the past and the current political context. This does not represent an exhaustive list, but rather a few options that could merit additional consideration.

Table 2.3 Other Funding Strategies

Strategy	Description	Potential $ raised	Actor	Examples
State Housing Trust Fund	Establishes a state-level housing trust fund that can provide a dedicated source of funds for affordable housing development	$500 million/yr statewide ($100-150 million for Bay Area)	State	Ohio (document recording fee), Florida (document recording fee)
Cap and Trade funds	The state currently requires that 25% of cap and trade funds be spent in disadvantaged communities. Additionally, the California Air Resources Board (CARB) called for funding affordable housing near transit.	Varies (up to $600 million through life of Cap and Trade)	State, MTC, ABAG	N/A
Support tying the provision of non-housing funds to housing development	Non-housing funds, such as the current HCD Parks program or OBAG, invested on the condition that housing is either built or planned for.	Non-monetary could boost production	MTC, jurisdictions, state	OBAG, HCD housing related parks program, HCD’s Infill Infrastructure Grant Program
Subregional solutions for housing development	By promoting closer subregional cooperation to meet local housing need, ABAG could better prepare local jurisdictions to plan for and potentially build more affordable housing units.	Non-monetary could boost production	ABAG, Local jurisdictions, fair housing organizations, HCD	Washington State Growth Management Act: distributes housing need at a county level.
Quality of Life Measure	Regional measure (e.g. sales tax) to enhance transit investments, fund affordable housing development, and maintain environmental quality.	If ¼ cent increase for housing in 2012 ~$300 million/yr	Cities, Counties, state, MTC, ABAG	San Diego Association of Governments (SANDAG) currently exploring this option. AB 431 (Mullins) would allow a regional MPO to impose a 0.5% use tax for Sustainable Communities Strategies implementation.

PART III: Boosting Affordable Housing through Regional Policies[30]

Introduction

As part of our research we assessed the extent to which the region could boost affordable housing production using the tools it currently has at its disposal. We recognize that any long term approach must also leverage substantial state and federal support.

Having investigated a number of options at the local and regional levels, certain strategies appeared more promising than others to fill the subsidy gap. Broadly, these approaches vary in their financial potential and in the degree to which they depend on local control. In order to stimulate and advance a regional dialogue about how to close the affordable housing subsidy gap, we present here three strategies that, if enacted concurrently and leveraged with state and federal monies, could significantly close the gap:

- Promoting subregional approaches to developing housing solutions
- Establish a regional housing trust fund to build on the success of the Transit Oriented Affordable Housing Fund (TOAH)
- Linking transportation dollars and other important non-housing funds to housing production

New state and federal sources of affordable housing subsidies are also necessary to fully bridge the affordability gap.

Methodology

ABAG conducted 23 stakeholder interviews with officials throughout the Bay Area to identify the appropriate local and regional considerations for the establishment of a potential regional funding framework for affordable housing. The individuals interviewed included elected officials, local and regional planning staffs, affordable housing advocates, and affordable housing developers. Interviews were structured to address two major considerations:

1. Assessing the effectiveness of current housing law as it is enforced, which in our case involved assessing the effectiveness of the Regional Housing Need Allocation (RHNA) process.

[30] Part III is based on previous staff research. For more information please see: Association of Bay Area Governments. "Housing the Workforce in the Bay Area." Regional Policy Background Paper – Housing the Workforce Policy Background Paper, 2013 retrieved from: http://onebayarea.org/pdf/policy_background_papers/Housing_the_Workforce_Policy_Background_Paper_July_2013.pdf and Galvao, Pedro. "Filling in the Affordability Chasm." Policy Analysis Exercise, Harvard University, 2013.

2. Discerning criteria for a regional structure that could incentivize affordable housing production while complementing existing local efforts.

ABAG also considered potential regional funding frameworks for affordable housing by examining two regional housing trust funds – HEART in San Mateo County and ARCH in Washington State. These trusts were chosen following a survey of state and regional approaches to affordable housing funding and fit the criteria below:

- Trust funds were located in regions that were experiencing a significant increase in housing prices.
- Trust funds were implemented through regional agreements among multiple jurisdictions.
- Trust funds achieved some local buy-in for affordable housing production.

Finally, to determine how potential state and federal funds might be used concurrently with local affordable housing dollars, we examined pending legislation at the state level and promising initiatives at the federal level to boost funding for affordable housing production.

Local and Regional Considerations:

From our interviews of local and regional housing officials, our proposed strategies meet certain criteria our research identified as essential to any regional funding framework:

1. Help each jurisdiction meet its Regional Housing Needs Allocation
2. Respect local land use control and create local incentives for meeting housing affordability targets
3. Assume and support flexibility in the way each locality decides to meet its affordable housing production goals
4. Engage local governing bodies in regional affordable housing decisions
5. Incentivize local participation by linking important non-housing funds (such as transportation funds) to affordable housing production.

Model Assumptions:

As we present the three strategies for discussion, we incrementally develop a model scenario for how these strategies might generate new sources of funds, based on the following assumptions. As mentioned earlier, the region currently generates about $800 million of subsidies from federal, state, and local funding sources annually. **To build enough affordable housing to meet the Bay Area's supply deficit would require an average of $4 billion annually. This leaves the region with a $3.2 billion gap.**

Table 3.1 Type of developmental subsidy by source, current and needed, to close gap

Subsidy Type (in millions/year)	Percentage	Current (2010) $/year	Needed $/year[31]	Gap $/year
Local	16%	$130	$650	**$520**
State	10%	$80	$400	**$320**
Federal[32]	70%	$560	$2,800	**$2,240**
Philanthropic	4%	$30	$150	**$120**
Total	100%	$800	$4,000	**$3,200**

The federal government provides the most subsidies for affordable housing, followed by local and state governments. Over the next thirty years state and local governments will likely have to shoulder a greater share of the burden as federal subsidies continue to decline. Therefore our first assumption is that wwe will not be able to fill the entire gap.

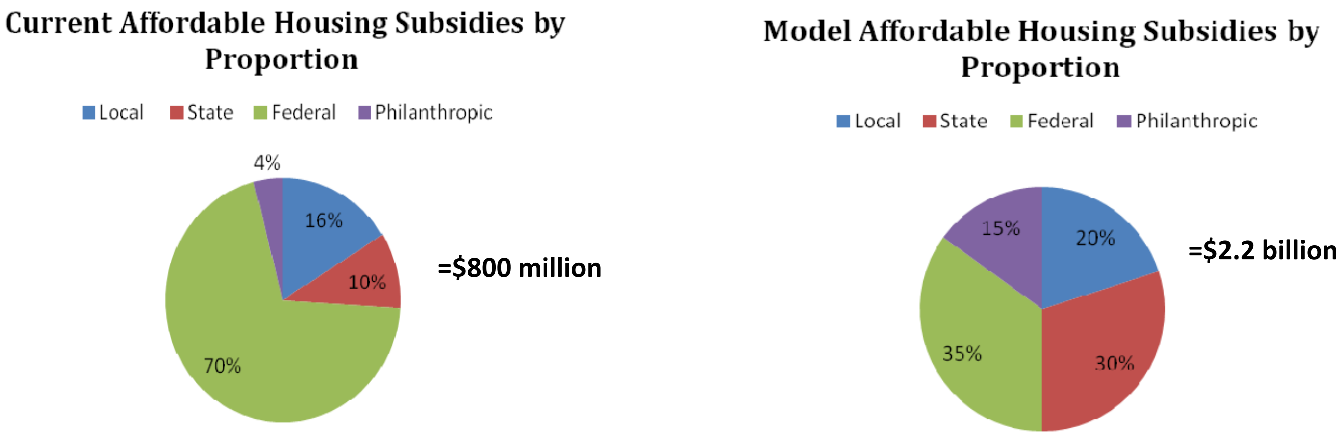
Closing 70% of the Affordable Housing Funding Gap: Although we anticipate developing many of the potential sources identified and inventing novel sources, at present we were able to identify potential sources to close only 70% of the estimated gap.

Decreasing federal share of subsidies: Our second major assumption is that federal funding will comprise only 35% of funds identified to fill the gap. Currently federal sources make up 70% of housing subsidies

[31] If future funding were increased at the same ratio as the present
[32] Our model did not differentiate between state and federal low-income housing tax credits thus this figure is somewhat inflated with the inclusion of state low-income housing tax credits.

available. Federal affordable housing funding has been trending downward and, in the near term, it is unlikely that these subsidies will increase other than a partial backfill from sequester. Nonetheless, as these subsidies represent the largest portion of available affordable housing funding we assume that in the long term (thirty years) future legislation may increase the dollar amount of federal subsidies for the Bay Area even if their overall proportion of affordable housing funding decreases.

Figure 3.2 illustrates the current and future proportions of affordable housing subsidies by source:



At 35% the federal government would still be the largest source of subsidies, followed by the state government which could provide 30% of what the region needs to close the affordability gap, with local and philanthropic sources rounding out the remaining 35%.

Table 3.3 Identified sources to close 70% of gap

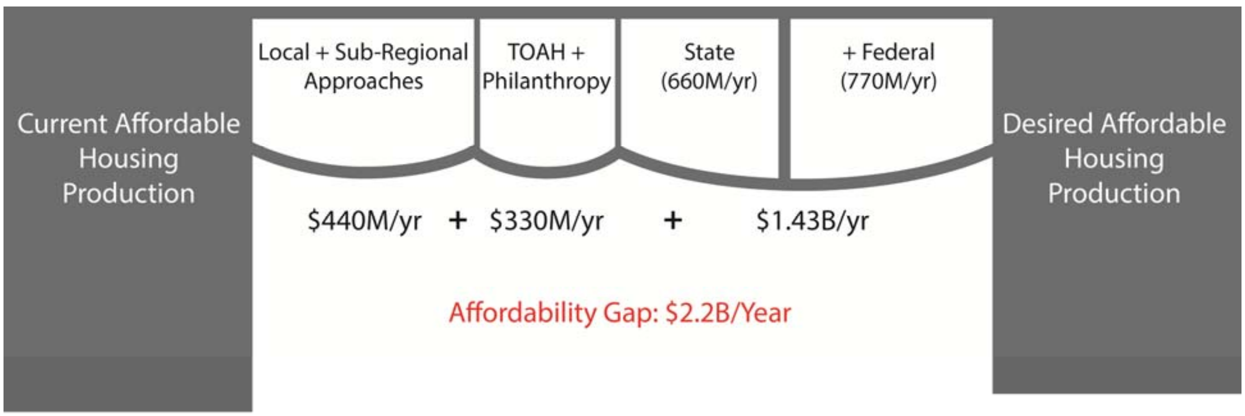
Subsidy Type (in millions/year)	70% of Gap Millions($)/year	Proportion (%)
Local	$440	20%
State	$660	30%
Federal[33]	$770	35%
Philanthropic	$330	15%
Total	$2,200	100%

[33] Our model did not differentiate between state and federal low-income housing tax credits thus this figure is somewhat inflated with the inclusion of state low-income housing tax credits.

Table 3.3 above details in rough terms the dollar amounts and percentage of the gap that each category would contribute if non-federal sources retained the same share relative to each other while the federal share decreased by half.

Figure 3.4 below illustrates how the region might achieve the $2.2 billion goal using the three regional approaches together to leverage potential additional state and federal resources. This initial vision is presented as a framework for discussion.

Figure 3.4 Potential model for Bridging the Affordability Gap



Regional Approach 1: Promoting local and subregional approaches to developing housing solutions

Background: Closer subregional cooperation could better prepare local jurisdictions to plan for, approve and fund more affordable housing. When local governments join together they have the opportunity to pool their resources and technical expertise. Where this approach has been implemented (for example in San Mateo County and in King County, Washington) the result has been high quality planning for and increased familiarity with affordable housing[34] and, in the case of Washington State, substantial funds and progress towards meeting regional goals. **If this approach were adapted across the entire Bay Area it could stengthen the political foundation for development of local support and subsidy sources necessary for affordable housing development.**

[34] In San Mateo County creating a subregion has ensured that all affordable housing projects approved by their local trust fund, HEART, were built with little community opposition. It has also significantly boosted awareness of affordable housing issues on a countywide basis by serving as the impetus for the *21 Elements* process where all the cities in the county pool their resources to produce high quality housing elements. For more information see Galvao, Pedro. “Filling in the Affordability Chasm.” Policy Analysis Exercise, Harvard University, 2013.

San Mateo's Subregion: In 2006 ABAG worked with County of San Mateo, San Mateo County/City Association of Governments and their local delegation to the State legislature to secure the right for jurisdictions in a county to take on responsibility for local allocation of the total county housing need planning target. In 2008 San Mateo County requested and received from ABAG the authority to assign its own housing need[35] among its jurisdictions. In response the county created two parallel but complementary organizations to effectively plan for housing and raise funds to build it:

The *21 Elements* program is a countywide initiative where all 21 jurisdictions in San Mateo County pool technical resources to develop high quality housing elements.[36] Representatives from each of the cities and the county meet bimonthly to discuss their progress in updating their elements.

HEART is a public-private housing trust jointly funded by San Mateo County, the private sector, and the 21 cities in the County to produce affordable housing. The trust fund was created in 2003 after extensive community organizing efforts and an initial policy report put together by the Peninsula Interfaith Action Federation. Over its 10 year existence, HEART has raised $12 million from public and philanthropic sources for affordable housing development.

Regional Implications: Subregional approaches increase local awareness of affordable housing and create a space for advocates and builders to better work with jurisdictions to carry out housing proposals.[37] The strength of this approach is that it respects and enhances local land use control relative to formulaic regional allocation, and allows for jurisdictional flexibility to meet regional objectives. When jurisdictions come together to address their housing need they become part of a peer network of communities that cooperate and can encourage each other to innovate to meet local housing needs. This option does not necessarily raise significant sums of affordable housing subsidies. Nevertheless, it can be instrumental to raising funds and increasing community acceptance of new housing.

[35] The regional housing needs assessment (RHNA) is a state-mandated program occurring on an eight-year cycle where the state department of finance (DOF) in collaboration with ABAG provides each of California's 18 regions with the number of jobs it must accommodate by building housing. These regional figures are then distributed to the local level by each of the state's council of governments (COGs), ABAG is the COG for the San Francisco Bay Area. In this case, San Mateo County formally requested and assumed these responsibilities from ABAG for jurisdictions within the county.

[36] Housing elements are state-mandated plans that each California jurisdiction must develop to account for how they will zone for enough housing to fully accommodate anticipated growth for the next eight years.

[37] Napa and Solano Counties have also recently formed subregionals to allocate their RHNA but have not yet established HEART-like trust funds.

Figure 3.5 Potential subsidies raised through local and subregional approaches

If all Bay Area jurisdictions were to voluntarily aim to close 20% of the regional affordability gap, this would correspond to a region wide total of $440 million/year in subsidies – this is roughly double what was lost to the region due to the elimination of redevelopment agencies. Jurisdictions might raise such subsidies through local approaches or by forming their own subregions which could raise money through a number of local options such as a countywide housing impact fee, various developers' fees, in-kind donations, additional sales taxes, or through other means not listed here.[38] **Given the diverse politics of the region and the complexity of local/technical considerations we will not prescribe any one specific policy to close the gap. Rather we set the $440 million/year as an aspirational goal to be reached by each locality through whatever means they deem fit.** This initial funding source could complement other resources such as future state and federal funds and charitable contributions by private foundations and corporations.

Table 3.6 Regional Considerations - Subregional Approaches

Regional Approach 2: Establish a regional housing trust fund to build on the success of the Transit Oriented Affordable Housing Fund (TOAH)

Background: The Transit Oriented Affordable Housing Fund (TOAH) was created in 2011 as a public-private partnership to fund affordable housing development and community services in transit accessible

[38] For a list of possible options at the local level please refer to the survey of promising local and regional policies on page 19.

areas.[39] The Metropolitan Transportation Commission (MTC) provided an initial $10 million seed investment that the fund was required to increase threefold by attracting private and philanthropic dollars. The TOAH matched MTC's original investment 4:1, growing the fund from $10 million to $50 million. Such success encouraged MTC to make a second $10 million investment in 2013 to leverage the TOAH to $90-100 million.

TOAH: The TOAH is a revolving loan fund. At least 75% of housing units funded by TOAH must be affordable to people making 80% or less of the Area Median Income (AMI) and be located in a planned priority development area (PDA). Since 2011 the fund allocated $32 million worth of loans to develop 742 affordable housing units.[40] Both the location of the housing and their compliance with strict environmental standards means decreased congestion and lower greenhouse gas emissions. As a layered fund that uses public dollars to anchor philanthropic investments which in turn are matched with corporate social investments, the TOAH represents an effective public-private partnership. The use of public dollars has enabled TOAH to offer recourse[41] loans at lower interest rates than most private and nonprofit lenders. Additional benefits of the TOAH are its relatively quick disbursement rate, region-wide applicability, and engagement of the private sector.

The TOAH provides two main forms of subsidy: it attracts social investments that would not otherwise be available for housing, and it can loan the invested monies to affordable housing developers at reduced interest rates for because MTC's investment of public money reduces investor risk by providing a safeguard for potential loan defaults (first loss position)[42]

Regional Implications: TOAH is an established and trusted source of housing funds. As the Bay Area's sole affordable housing loan fund scaled specifically to the Bay Area region, in the future it could prove to attract philanthropic contributions to affordable housing. Then TOAH or a TOAH-inspired regional trust fund could become a source of critical "soft money"—grants, unsecured non-recourse loans for early stage development, and longer term debt with flexible payment terms. This would make it more attractive for certain donors and could provide a region-wide mechanism for quickly disbursing new affordable housing subsidies. Discussions regarding TOAH are ongoing.

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[39] The TOAH came about after sustained advocacy efforts by regional groups under the umbrella organization the Great Communities Collaborative. Those organizations are still closely involved with the fund.
[40] Transit Oriented Affordable Housing Fund internal production figures provided to ABAG by TOAH Advisory Committee.
[41] Requires monthly loan payments that must be secured through collateral for nonprofit developers this means property.
[42] To date (April 2014) there have been no defaults on any TOAH loans.

Figure 3.7 Potential Subsidies raised through Increased TOAH and more philanthropy

As the world's 19th largest economy,[43] the Bay Area has vast private and philanthropic resources that should be tapped as part of the solution to the housing affordability crisis. We estimate that the region could potentially raise an additional $300 million[44] annually from private and philanthropic donations and investments. These contributions could come through a variety of means such as land, in-kind contributions, stock or cash. Some current regional examples of attracting philanthropic dollars to affordable housing include HEART and the Housing Trust of Silicon Valley which together have amassed tens of millions from the private sector. We estimate that subregional housing trusts could provide another $30 annually to anchor place-based layered sub-funds, for instance to support development of affordable housing in the region's three primary multi-modal transportation corridors.

Regional Approach 3: Link transportation dollars and other non-housing funds to housing production

Background: Research[45] and local experience[46] have shown that linking the provision of non-housing funds such as parks and transportation to housing production has increased local cooperation in planning for and incentivizing housing production.

[43] Levy, Steve. "California Poised to Move Up in World Economic Rankings in 2013." Center for Continuing Study of the California Economy, July 2013 <http://www.ccsce.com/PDF/Numbers-July-2013-CA-Economy-Rankings-2012.pdf>

[44] In 2012 all Bay Area community foundations had approximately $4.7 billion in assets (East Bay Community Foundation, Marin Community Foundation, Napa Valley Community Foundation, San Francisco Foundation, Silicon Valley Community Foundation, Solano Community Foundation, Sonoma Community Foundation). Community foundations are themselves only a portion of the total philanthropic potential latent in the Bay Area. Divided equally among foundations the $200 million in estimated annual housing contributions would correspond to approximately $25 million to be raised from each community foundation. If factoring in other philanthropic sources such as family foundations the philanthropic potential in the Bay Area easily exceeds $15 billion in assets.

[45] Galvao, Pedro. "Filling in the Affordability Chasm." Policy Analysis Exercise, Harvard University, 2013.

Linking Transportation Investments to Housing – The One Bay Area Grant Program (OBAG):

The One Bay Grant Program (OBAG) links federal transportation dollars to affordable housing targets by awarding jurisdictions funds for local streets and roads improvements based upon their having planned for and produced affordable housing.[47] The way the funds themselves are spent does not change, but jurisdictions cannot receive these transportation dollars without having met certain criteria. Linking transportation dollars to housing production has yielded tangible benefits for the region. For instance, OBAG transportation dollars were a motivating force for 28 Bay Area jurisdictions whose housing elements[48] were out of compliance in May of 2012[49] to become compliant by December of 2013. These additional housing element certifications brought 99% of Bay Area jurisdictions into compliance with HCD requirements. The region could build on OBAG's success by increasing the size of the program or by linking other, non-OBAG funds, to housing production.

Regional Implications: The region could increase the transportation dollars linked to affordable housing planning and production or could link other essential funds that are distributed regionally, such as for parks. The efficacy of this approach hinges on fostering a deep appreciation of the nexus between the availability of affordably-priced housing and other quality of life services and amenities. While this approach does not itself raise money for affordable housing, it does have the overall impact of incentivizing jurisdictions to support production of affordable housing and advocate for affordable housing programs at the state and federal level. Potential local strategies include the creation of dedicated housing funding streams, providing in-kind donations to affordable housing developers (such as land and technical assistance), and/or lobbying the state and federal governments for additional housing subsidies.

Regional / Local Considerations

Stakeholder interviews confirmed that viable strategies at the regional level must meet specific requirements in relation to local jurisdictions. Table 3.7 below presents the ways that each of the three strategies under discussion honor these requirements.

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[46] See HCD's Housing Related Parks Program as well as Infill Infrastructure Development Program.

[47] To receive any OBAG funds jurisdictions are required to plan for housing through having an HCD-approved housing element while actual housing production is weighted though not required for the actual amounts awarded.

[48] Housing elements are state mandated local housing plans that each California jurisdiction is required to complete to demonstrate how they intend to house all income levels of their current and projected population over an eight year period.

[49] May 2012 is when the One Bay Area Grant program started

Table 3.7 Regional Considerations – Linking non-housing funds to housing production

Regional Considerations	1. Promote local & subregional approaches	2. Build on TOAH success to establish a Regional Housing Trust Fund	3. Link non-housing funds to housing production
Help each jurisdiction meet its Regional Housing Needs Allocation	Communities support one another in crafting policies to build housing assigned through the RHNA process	The TOAH provides much needed financing for affordable housing development	Program acts as an added incentive for jurisdictions to meet RHNA targets
Respect local land use control and create local incentives for meeting housing affordability targets	Jurisdictions retain full land use control and acquire additional flexibility in how they plan to meet regional targets	Fund is a purely voluntary subsidy source	Local jurisdictions maintain land use control
Assume and support flexibility in the way each locality decides to meet its affordable housing production goals	Each locality is free to pass ordinances that make the most sense for their particular situation	Fund can be used to complement local initiatives to leverage even more money	Local jurisdictions decide how they will comply with housing requirements
Engage local governing bodies in regional affordable housing decisions	Any subregional body that is formed will need to strongly engage local governments	Local jurisdictions decide how they will comply with housing requirements	Local jurisdictions decide how they will comply with housing requirements
Incentivize local participation by linking important non-housing funds (such as transportation funds) to affordable housing production.	Linking transportation funding to affordable housing production, the One Bay Area Grant program (OBAG)[50] encourages jurisdictions to actively address their housing needs.	Uses transportation dollars in an innovative way to support affordable housing development	OBAG directly links transportation funding to housing planning and production

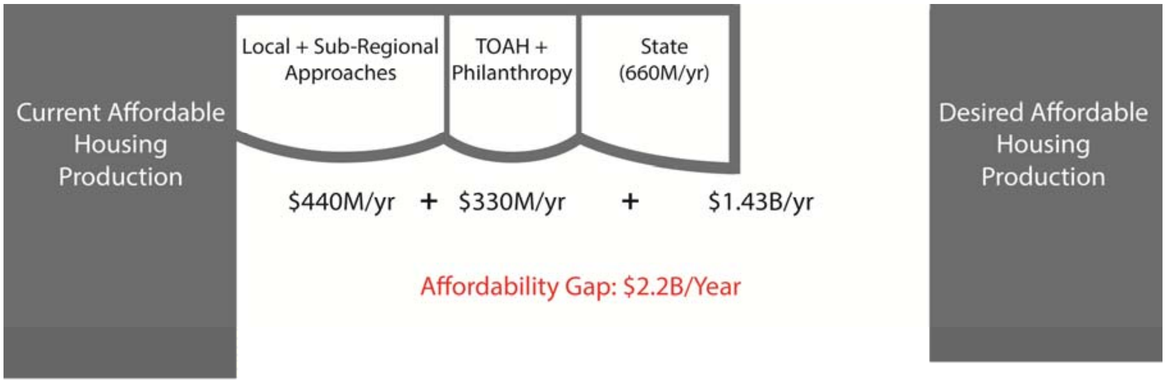
Boosting State and Federal Resources

The affordability gap is unlikely to be closed without additional state and federal resources. We discuss several short and longer term approaches to closing the remaining gap using existing and potential state and federal revenues.

[50] Part of Plan Bay Area this program will be discussed more in depth later in this section

State Revenues

Figure 3.10: Potential Housing Subsidies raised through additional State Revenues



In the long run the Bay Area may be able to draw an additional $660 million worth of subsidies annually from state sources.

Short Term Subsidies (1-5 years):

- In the short term the region has the potential to raise an additional $250 million in annual subsidies from state sources. These revenues could originate from California's Cap and Trade Program (as envisioned by AB 20) or from the Jobs and Homes Act (SB 391)

Longer Term Subsidies (5-10 years):

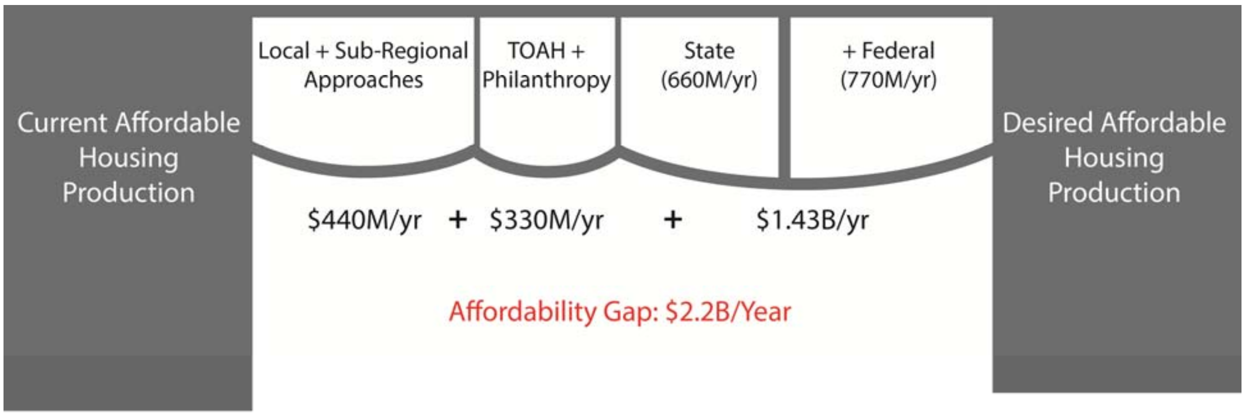
The remaining $440 million/year could potentially be covered through new state programs. One possibility could be through savings in Medi-Cal. Providing safe, sanitary, and healthy housing could save California hundreds of millions if not billions annually in Medi-Cal expenditures. Affordable housing is a cheaper and more effective alternative than emergency rooms to provide basic health services saving the state tens of thousands in per patient Medi-Cal expenditures. While this approach remains untested in California, New York State has been leading the nation by redirecting a portion of its Medicaid funding to build affordable housing for high need populations such as seniors and the disabled. An initial $75 million investment in fiscal year 2012-13 resulted in $4 billion worth of Medicaid savings. Recently New York declared its intention to redirect a portion of those savings to build 5,000 additional supportive housing units.[51] Like New York, California could potentially apply a portion of its anticipated

51 State of New York. "Governor Cuomo Announces Medicaid Redesign Team Initiative to Provide Housing to 5,000 High-Need Individuals." Office of Governor Andrew M. Cuomo, September 12, 2013 retrieved from <https://www.governor.ny.gov/press/09122013-medicaid-redesign-individual>

Medi-Cal savings to affordable housing development while the rest could be redirected towards other state priorities.

Federal Revenues

Figure 3.11 Potential Housing Subsidies raised through additional federal subsidies



In our scenario, to reduce the affordability gap the Bay Area would require an additional $770 million/year worth of federal subsidies. Like the State of California the federal government is most likely to fund new affordable housing expenditures through anticipated savings from other programs rather than through new appropriations. As a portion of the federal budget, the additional $770 million in subsidies required by the Bay Area is a small percentage of what the region currently receives through federal appropriations for housing and non-housing programs combined.

Over the past decade the federal government has moved in the direction of funding housing development through linking such investments to other programs such as Health and Transportation. Presently, the use of federal Medicare dollars for affordable housing development represents the largest single potential untapped source of funds. While the federal government has yet to approve using Medicare dollars for housing it remains a strong possibility currently under consideration by advocates and policymakers. Housing has also been linked to decreased greenhouse gas emissions[52] and to better educational outcomes.[53]

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[52] See Fuhry et al. "Progress and Possibility: Green Building Criteria in Low-Income Housing Tax Credit Programs." Global Green USA and NeighborWorks America retrieved February 2013 < http://www.globalgreen.org/i/2012QAP_Final.pdf.> LEED: Leadership in Energy and Environmental Design certification requires that new buildings meet strict construction and energy use standards.

[53] Brennan, Maya. "The Impacts of Affordable Housing on Education." Center for Housing Policy *Insights from Housing Policy Research*, 2011 retrieved November 2013 <http://www.nhc.org/media/files/Insights_HousingAndEducationBrief.pdf>

Given these potential savings and social benefits we describe a potential vision for how the federal government could fill its share of the region's affordability gap:

Table 3.12 – Additional State and Federal Funds

Source of Funding	Amount of Funding
Medicare Expenditures (HHS)[54]	$500 million/year
Transportation Expenditures (DOT)[55]	$150 million/year
Environmental Expenditures (EPA)[56]	$100 million/year
Educational Expenditures (ED)[57]	$20 million/year
Total	$770 million

In this scenario, closing the affordability gap at the federal level would involve the use of multiple resources and coordination of funds between several federal departments. Each line item, however, can be accounted for as achieving each department's core mission: better health outcomes, transportation efficiency, lower greenhouse gas emissions, and better educational outcomes. While the above scenario is speculative, it is intended to underscore the potential benefit that could be derived from effectively demonstrating how investment in affordable housing can produce leveraged results in many federal program areas.

[54] Medicare has a waiver program in place "Section 1115" which allows states flexibility on how they might deliver Medicare services. While HHS rejected New York State's application which hoped to use the money towards the development of supportive housing, there is still a possibility that these moneys might be made available to housing in the future.
[55] The Department of Transportation, Environmental Protection Agency, and Department of Housing and Urban Development are partnering through an interagency working group to better align their strategic plans and funding mechanisms to develop affordable housing near transit. US Department of Transportation. "Affordable Housing Near Transit." retrieved on February 2014 < http://www.fta.dot.gov/about_FTA_10966.html>
[56] See footnote 54
[57] The federal government has already recognized the linkage between good schools and affordable housing through the creation of the CHOICE Neighborhoods program which funds the rehabilitation of severely distressed housing (public or private) along with providing local schools with additional resources. This precedent could be built on in the future to provide California with more money for affordable homes.

Conclusion

The Bay Area can make substantial progress toward closing the affordable housing development subsidy gap, but the solutions will require innovative approaches and a strong commitment from all levels or government and the private sector. This Affordable Housing Gap Analysis is intended to move this conversation forward by generally quantifying the need for additional housing subsidy in the Bay Area, and proposing possible courses of action at the local and regional levels. We hope that local jurisdictions and regional stakeholders will find the information presented here useful and be able to implement some of the solutions already enacted by their Bay Area peers. Regional agencies are committed to continuing to work to identify and promote viable strategies to close the gap.   Affordably priced housing is a necessity for the wellbeing of Bay Area residents, their communities, and the regional economy as a whole.

Glossary of Terms

Affordable housing: A home is considered "affordable" if it costs no more than 30 percent of a household's annual income. Affordable homes are required to limit their rents and mortgages for a period between 15 to 55 years. Such properties are built by private and nonprofit developers for middle and low income households. These are households making 80 percent or less of their area's median income level which in the Bay Area varies according to the city/county but is an average of $62,000 or less per year.

Area Median Income: Affordability is often defined in terms of the area median income (AMI) which is published by the Department of Housing and Urban Development (HUD) for every county and metropolitan area. These are four HUD-defined metropolitan areas in the Bay Area and the table below details their relative median incomes for a family of four as determined by HUD in Fiscal Year 2014.

Table i

County	Very Low (0-50% AMI)	Low (51-80% AMI)	Moderate (81-120% AMI)	Above Moderate (120% + AMI)
Alameda	0-$46,000	$46,920-$73,600	$74,520-$110,400	$110,400+
Contra Costa	0-$46,000	$46,920-$73,600	$74,520-$110,400	$110,400+
Marin	0-$55,350	$55,351-$88,600	$88,601-$132,900	$132,900+
Napa	0-$41,200	$42,024-$65,920	$66,744-$98,880	$98,880+
San Francisco	0-$55,350	$55,351-$88,600	$88,601-$132,900	$132,900+
San Mateo	0-$55,350	$55,351-$88,600	$88,601-$132,900	$132,900+
Santa Clara	0-$50-950	$51,969-$71,300	$82,539-$122,280	$122,280+
Solano	0-$38,350	$39,117-$61,350	$62,127-$92,040	$92,040+
Sonoma	0-$38,450	$39,219-$61,500	$62,263-$92,280	$92,280+

Bay Area: The nine counties with waterfront on San Francisco Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma and their respective jurisdictions.

Cost-restricted affordable housing: Properties for which the rent or mortgage payments are required to be affordable in relation to their occupants' household income level.

Housing element: a state-mandated planning document in which jurisdictions are, among other things, required to plan for enough housing to accommodate all income levels of their population and projected workforce over an eight year period.

HUD: Department of Housing and Urban Development.

Regional Housing Need Allocation (RHNA): All jurisdictions in California are required to plan and zone for enough housing to accommodate all income levels for their current and projected workforce over an eight year period. The state assigns a planning target to each region, which in turn assigns an allocation to each jurisdiction directly or via delegation to a county-level subregion where applicable. The latest RHNA cycle for which jurisdictions are required to accommodate housing is 2014-2022.

Plan Bay Area (PBA): As required by the Sustainable Communities and Climate Protection Act of 2008 (SB 375), Plan Bay Area is the sustainable communities strategy (SCS) for the nine-county Bay Area. The plan designed to alter the region's land use patterns in order to decrease overall greenhouse gas emissions statewide.

Priority Development Area (PDA): PDAs are areas, designated voluntarily by local jurisdictions, where new development can support the day-to-day needs of residents and workers in a pedestrian-friendly environment served by transit. Local jurisdictions have defined the character of their PDAs according to existing conditions and future expectations as regional centers, city centers, suburban centers or transit town centers, among other place types.

SB 375*:* The Sustainable Communities and Climate Protection Act of 2008 requires each of the state's 18 metropolitan planning regions to adopt and implement a Sustainable Communities Strategy (SCS) in order to alter each region's land use pattern in ways that decrease overall greenhouse gas emissions statewide. In the Bay Area the adopted SCS is Plan Bay Area (PBA), an integrated land-use and transportation plan which guides new development to locally designated Priority Development Areas (PDAs).

Subsidies: The totality of funds necessary to make up the difference between the total development cost and the amount of debt financing that can be supported by residents' rent. This includes loans and investments from state and federal financing programs (tax credits, tax exempt bonds) as well as grants, loans and investments from "local" (i.e., regional, subregional, city) public and private sources.

Subsidy Gap: The difference between the subsidies available for new affordable housing development and the subsidies needed to cover the total development costs of all new affordable housing projects needed to house the Bay Area's projected workforce through 2040.

Sustainable Communities Strategy (SCS): See Plan Bay Area.

Transit Oriented Affordable Housing Fund (TOAH): The Transit Oriented Affordable Housing Fund (TOAH) was created in 2011 as a public-private partnership to fund affordable housing development and community services in transit accessible areas in the Bay Area. The TOAH offers loans at below-market rate interest rates to affordable housing developers whose chosen affordable housing sites meet certain criteria.

Important Acronyms (all have been previously defined)

Association of Bay Area Governments (ABAG)
Metropolitan Transportation Commission (MTC)
Plan Bay Area (PBA)
Priority Development Area (PDA)
Sustainable Communities Strategy (SCS)
Transit Oriented Affordable Housing Fund (TOAH)

Appendix 1: Affordable Housing Funding Strategies in the Bay Area

In this appendix we detail, at the jurisdictional level, affordable housing policies in place at all Bay Area counties. These policies include funding, preservation, and regulatory strategies for creating and preserving housing encompassing the full breadth of local solutions to the affordability crisis. This data was originally collected in 2012 by ABAG through a survey of housing policies administered to all Bay Area jurisdictions. Given the number of local ordinances in place and their diversity we limit the data we show here to a simple “yes” and “no” and “n/a” for not available concerning whether a given jurisdiction has a policy of interest.[58]

[58] The one exception is the City of San Francisco which has the unique classification of a City and County and therefore unified policies throughout.

Alameda County

Alameda County provided a very comprehensive assessment of all its local affordable housing policies. Among the county's most prevalent strategies for developing and preserving affordable housing are inclusionary zoning, density bonuses beyond what is required by state law, and condo conversion restrictions at nearly every jurisdiction. The table that follows on the next page, from Alameda County Transportation Commission's (ACTC) PDA Investment and Growth Strategies, summarizes at the jurisdictional level all the affordable housing development and rehabilitation policies in place in Alameda County.

Jurisdiction	Inclusionary Housing	Land Banking	Just Cause Evictions	Rent Control	Condo Conversion	Development Impact Fees	Other Housing Preservation Strategies, e.g. low cost rehabilitation loans	Anti-Displacement Strategies/ Policies/ Programs	Other Housing Strategies (e.g. second units, senior housing, SROs, housing funds, etc)
Alameda	Yes	No	No	No	Yes	Yes	Yes	No	Yes
Albany	Yes	No	No	No	Yes	Yes	No	No	Yes
Berkeley	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Dublin	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes
Emeryville	Yes	Yes	No	No	Yes	In progress	Yes	In progress	Yes
Fremont	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes
Hayward	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Livermore	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes

Newark	Yes	No	No	No	No	Yes	Yes	No	Yes
Oakland	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Piedmont	No	No	No	Yes	Yes	No	Yes	No	Yes
Pleasanton	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes
San Leandro	Yes	No	No	No	Yes	Yes	Yes	No	Yes
Union City	Yes	No	No	No	Yes	Yes	Yes	No	Yes
Unincorporated	No	Yes	No	No	Yes	Yes	Yes	Yes	Yes

Contra Costa County

The majority of jurisdictions in Contra Costa County fund affordable housing development through inclusionary zoning. Many of the county's cities also have condo conversion ordinances and a few cities have funding for rehabilitation and acquisition. Overall the county has fewer jurisdictions with affordable housing policies than neighboring Alameda County. The table below was simplified from the Contra Costa Transportation Authority's PDA Investment and Growth Strategies:

Jurisdiction	Inclusionary Housing	Land Banking (Sites)	In-Lieu Fee Program	Rent Control Ordinance	Other Housing Production Strategies	Rehab/Preservation	Condo Conversion Restrictions	Just Cause Eviction Policies
Antioch	No	No	No	Yes	No	Yes	No	No
Brentwood	Yes	No	No	No	No	No	Yes	No
Corcord	Yes	No	No	Yes	Yes	No	Yes	No
Clayton	No	No	No	No	No	No	No	No
Danville	Yes	No	No	No	No	No	No	No
El Cerrito	No	Yes	Yes	Yes	Yes	Yes	Yes	No
Hercules	No	No	No	No	No	No	No	No
Lafayette	No	No	No	No	No	Yes	Yes	No
Martinez	No	No	No	No	No	Yes	No	No
Moraga	No	No	No	No	No	No	No	No
Oakley	No	No	No	No	No	No	No	No

Orinda	No	No	No	No	No	No	No	No
Pittsburgh	Yes	No	No	No	No	No	No	No
Pleasant Hill	Yes	No	No	No	No	No	Yes	No
Richmond	Yes	No	No	No	Yes	No	Yes	Yes
San Pablo	No	No	No	No	No	No	Yes	No
San Ramon	No	No	No	No	No	Yes	Yes	No
Walnut Creek	Yes	No	Yes	No	No	No	Yes	No
Contra Costa County	Yes	No	No	Yes	No	Yes	Yes	No

Marin County

Like other Bay Area counties, Marin's jurisdictions have mainly adopted inclusionary zoning and condo conversion restrictions. Additionally, most Marin jurisdictions provide density bonuses and certain protections, such as a limited form of rent control, for secondary units. The tables below represent the policies most prevalent in Marin County. For this document, we have omitted the additional text, which can be found in the Transportation Authority of Marin's (TAM) PDA Investment and Growth Strategies.

Policies	Inclusionary Housing	Rent Control	Condo Conversions	Impact Fees /other subsidies	Density Bonus	Reduced Fees/Waivers	Reduced Parking	Second Units	Group Homes & Home Sharing	Senior and Work Force	TODs	Other Funding/Preservation Strategies
Belvedere	Yes	No	No	No	No	No	No	No	No	No	No	No
Corte Madera	Yes	No	Yes		Yes	Yes	Yes	Yes	No	Yes	No	Yes
Fairfax	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Larkspur	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Mill Valley	Yes	No	No	Yes	No	Yes	No	Yes	No	No	No	Yes
Novato	No	No	No	Yes	No	No	No	No	No	No	No	Yes
Ross	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes
San Anselmo	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No	No	No

San Rafael	Yes	Yes	Yes	No	Yes	No	No	Yes	No	No	No	Yes
Sausalito	Yes	No	Yes	No	No	No	No	No	No	No	No	Yes
Tiburon	Yes	No	Yes	No	Yes	Yes	No	No	No	No	No	Yes
Unincorporated Marin County	Yes	No	Yes	Yes	Yes	Yes	No	No	No	No	No	Yes

Napa County

While Napa County did not include housing policies with its CMA investment and growth strategies, ABAG did collect affordable housing policy data for the county, which we make available below. Most Napa jurisdictions made use of inclusionary zoning and planning-level incentives such as flexible design standards and fee deferrals to encourage affordable housing development.

Jurisdiction	Inclusionary Housing	Rent Control	Preservation Strategies	Condo Conversion	Impact Fees	Other Policies
American Canyon	Yes	No	No	No	No	Yes
Calistoga	Yes	Yes	No	No	No	Yes
Napa	Yes	No	No	No	No	Yes
St. Helena	Yes	No	No	No	No	Yes
Yountville	Yes	No	Yes	Yes	Yes	Yes
Unincorporated County	Yes	No	Yes	Yes	Yes	Yes

Santa Clara County

The most widespread affordable housing policy in Santa Clara County is inclusionary zoning. Other strategies put in place by Santa Clara jurisdictions include commercial impact fees and fast track permitting. Certain jurisdictions have a great number of policies in place while others have few to no responses. The tables below are from the Valley Transit Authority's (VTA) PDA Investment and Growth Strategies.

Jurisdiction	**Inclusionary Housing**	**Land Banking**	**Just Cause Evictions**	**Rent Control**	**Other Preservation Strategies**	**Condo Conversion**	**Impact Fees**	**Other Affordable Housing Policies**
Campbell	Yes	No	No	No	No	Yes	No	Yes
Cupertino	Yes	No	No	No	No	Yes	Yes	Yes
Gilroy	Yes	No	No	No	Yes	Yes	Yes	Yes
Los Altos	Yes	No	No	No	No	Yes	No	Yes
Los Altos Hills	No	No	No	No	No	No	No	Yes
Los Gatos	Yes	No	No	Yes	Yes	Yes	No	Yes
Milpitas	No	No	No	Yes	Yes	Yes	Yes	Yes
Monte Sereno	No	No	No	No	No	No	No	No
Morgan Hill	No	No	No	No	No	No	No	No

Mountain View	Yes	No	No	No	Yes	Yes	Yes	Yes
Palo Alto	Yes	No	No	No	Yes	Yes	Yes	Yes
San Jose	Yes	No	Yes	Yes	Yes	No	No	Yes
Santa Clara	Yes	No	No	No	No	No	No	Yes
Saratoga	No	No	No	No	No	No	No	Yes
Sunnyvale	Yes	No	No	No	Yes	Yes	Yes	Yes
Unincorporated	No	No	No	No	Yes	No	No	Yes

San Francisco

As both a city and county, San Francisco has the advantage of having uniform housing policies throughout. Given the city's status as a single political entity we provide a discussion of its housing policies made available by its CMA the San Francisco County Transportation Authority (SFTCA).

Rent Ordinance: The Ordinance applies to approximately 170,000 rental units in the city and, among other things, places limits on the amount of rent increases which can be charged by the landlord and on the reasons for evicting a tenant. When leasing vacant units, the landlord may charge market rate rent at the outset of a new tenancy. Rent increases are restricted in subsequent years to the annual allowable increase for as long as the same tenant(s) remain. In order to evict a tenant from a rental unit covered by the Rent Ordinance, a landlord must have a "just cause" reason that is the dominant motive for pursuing the eviction. The landlord also needs a "just cause" reason to remove, reduce or sever certain housing services from a tenancy. There are 15 just cause reasons for eviction under Ordinance Section 37.9(a). The most common are non-payment of rent, habitual late payment of rent, and failure to cure a breach of a rental agreement or lease.

Condo Conversion Restrictions: Under SF's law, existing apartment or mixed-use buildings with more than six residential units cannot be converted, and conversions of 3-6 unit buildings are subject to an annual ceiling. Buildings with two residential units are automatically qualified to convert from rental status to ownership. However, 3-6 unit buildings must be selected in an annual lottery to be allowed to convert. Up to 200 units are converted through the lottery each year, representing approximately 50-60 buildings.

Single Room Occupancy (SRO) Conversion Restrictions: The San Francisco Residential Hotel Demolition and Conversion Ordinance (1981) prevents demolition or conversion of SROs to apartments or a tourist hotel unless an in-lieu fee is paid to the city's affordable housing replacement fund.

Restrictions on Conversion to Student Housing: Given that over 15 postsecondary schools are located in San Francisco, the City has taken the policy stance to encourage construction of new student housing, rather than acquisition of existing residences. Conversions from any form of housing to student housing is prohibited by the Planning Code, subsection 317(f) (1).

Prohibitions on Housing Demolition: Residential demolitions are not only discouraged, but severely restricted through San Francisco's Planning Code and its Planning Commission guidelines. These requirements mandate a public hearing and deliberation for demolition of units, discourage the demolition of sound housing stock, especially historically significant structures, and require that replacement projects be entitled before demolition permits.

Inclusionary Program: Developers of projects that are at least ten units in size must select one of the following options to comply with Inclusionary Housing Program requirements: Pay an Affordable Housing fee which is calculated as the difference between real development costs and affordable sales prices, applied to 20% of the number of units to be developed; 12% of the total units constructed are affordable units located onsite, seamlessly integrated into the development; 20% of total units constructed are affordable units and located offsite within one mile of the principal development

Acquisition/Rehabilitation to Protect "Naturally" Affordable Housing: The Mayor's Office of Housing provides financial assistance for the purchase and necessary improvements to the building in exchange for affordability restrictions that ensure the building will continue to provide affordable housing into the future. MOH is expanding the current Acquisition/Rehabilitation program to include smaller buildings (under 25 apartments) that house low and moderate income tenants in neighborhoods with high displacement risks.

HOPE SF/Public Housing: The San Francisco Housing Authority (SFHA) owns 6,262 units of public housing, making it one of the largest property owners in the City, responsible for 19% of all publicly-supported affordable rental housing. HOPE SF will use local, state, and federal funds to finance the rebuilding of 2,500 deteriorating public housing apartments with 6,000 new public, affordable and market-rate homes. Other sites also require work to upgrade to appropriate levels of quality and address deferred maintenance although no financing has been identified to address these needs.

Buildings with Expiring Affordability Restrictions: The acquisition of affordable housing units at risk of converting to market rate due to expiring HUD mortgages or other subsidies has been an important part of the City's efforts to increase the stock of affordable housing. Concerted efforts by MOH have resulted in securing financing for most of these properties to come under non-profit ownership and ensure permanent affordability. From 1999 to 2006, a total of 1,661 affordable units were preserved through these efforts. MOH will continue to provide financial assistance to these and other at-risk units to ensure long term affordability.

Loan Programs for Low/Moderate Income First-Time Homebuyers: The City administers a variety of down-payment and mortgage assistance programs that assist low- and moderate-income, first time homebuyers to purchase market rate and below market rate (BMR) homes in San Francisco. The Down-payment Assistance Loan Program (DALP) is a local bond-capitalized fund that provides payment deferred, shared equity loans to low- and moderate-income first-time homebuyers to assist them in the purchase of market priced homes. Special forgivable down-payment assistance loans are also available for qualified teachers employed by the San Francisco Unified School District and qualified police officers in the San Francisco Police Department. The City Second program also provides payment deferred loans to low- and moderate-income residents purchasing selected City-funded homeownership developments. Mortgage Credit Certificates (MCCs) are available through the City to qualified first-time homebuyers to provide additional tax credits to offset mortgage payments.

Proposition C: A 30-year amendment to the City's charter which establishes a general fund set aside to a) fund affordable housing production for lower-income households, b) increase homeownership opportunities for moderate income households; and, c) stimulate market-rate production across the City with a particular focus in areas zoned for increased growth and density. In November, the Housing Trust Fund Charter Amendment (Prop C) was approved by San Francisco voters by a wide margin. Beginning in fiscal year 2013/14, $20 million will be set aside for housing uses. This amount grows annually until it reaches $50.8 million in year 12. Over the 30 year life of the fund, approximately $1.2B will be directed toward affordable housing. Approximately 90% of the funding going to the production and rehabilitation of multifamily affordable housing, with approximately 10% of the fund directed toward programs such as down payment assistance, foreclosure prevention, and neighborhood infrastructure improvements.

San Mateo County

Among jurisdictions in San Mateo County, Inclusionary Housing appears to be the norm. The county has also implemented innovative planning practices such as the *21 Elements* process which pools technical resources among the 21 cities of San Mateo County to produce high quality housing elements. Additionally, the county's housing trust fund, HEART of San Mateo County, has a unique governance structure that works, as much as possible, to mitigate potential opposition to affordable housing development.

Jurisdiction	**Inclusionary Housing**	**Land Banking**	**Rehabilitation Program**	**Just Cause Evictions**	**Rent Control**	**Other Preservation Strategies**	**Condo Conversion**	**Impact Fees**	**Other Affordable Housing Policies**
Atherton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Belmont	Yes	Yes	No	No	No	N/A	No	No	N/A
Brisbane	Yes.	Yes.	N/A	N/A	N/A	Yes	Yes	Yes	Yes
Burlingame	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes
Colma	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes
Daly City	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes
East Palo Alto	Yes	N/A	Yes	Yes	Yes	N/A	Yes	Yes	Yes
Foster City	Yes	N/A	Yes	Yes	Yes	N/A	N/A	N/A	Yes
Half Moon Bay	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Hillsborough	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes
Menlo Park	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes
Millbrae	No	Yes	No	N/A	N/A	N/A	N/A	N/A	Yes
Pacifica	Yes	N/A	N/A	N/A	N/A	Yes	Yes	N/A	Yes
Portola Valley	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes

Solano County

While Solano County did not include housing policies with its CMA investment and growth strategies, ABAG did collect affordable housing policy data for the county, which we make available below.

Jurisdiction	Inclusionary Housing	Land Banking	Just Cause Evictions	Rent Control	Preservation Strategies	Condo Conversion	Impact Fees	Other
Benicia	Yes	No	No	No	No	Yes	Yes (fee reductions)	Yes
Dixon	No	No	No	No	No	No	No	No
Fairfield	No	No	No	No	Yes	No	No	Yes
Rio Vista	Yes	No	No	No	No	No	No	No
Suisun City	Under consideration	Under consideration	Yes	No	Under consideration	Under consideration	Under consideration	No
Vacaville	No	No	No	No	Yes	No	No	Yes
Vallejo[59]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unincorporated	No	No	No	No	No	No	No	Yes

[59] Jurisdiction did not respond to housing policies survey sent out by ABAG.

Sonoma County

Like most Bay Area counties, most of the cities in Sonoma have an inclusionary housing ordinance of some sort. All cities and the county provide a density bonus for developers of affordable housing, it is unclear however if these density bonuses go above and beyond what is currently required by California Law. Sonoma County also follows the pattern of Alameda and Contra Costa which both have rent control for mobile homes. The table below is from Sonoma County's Transportation Authority's (SCTA) PDA Investment and Growth Strategies .

Jurisdiction	Inclusionary Housing	Just Cause Eviction	Rent Control	Condo Conversion	Impact Fees	Density Bonus
Cloverdale	Yes	No	No	No	No	Yes
Cotati	Yes	No	No	No	No	Yes
Healdsburg	No	No	No	No	No	Yes
Petaluma	Yes	No	Yes (mobile homes)	Yes	Yes	Yes
Rohnert Park	Yes	No	Yes (mobile homes)	No	No	Yes
Santa Rosa	Yes	No	Yes (mobile homes)	Yes	Yes	Yes
Sebastopol	Yes	Yes	Yes (mobile homes)	Yes	Yes	Yes
Sonoma	No	No	No	No	No	Yes
Windsor	Yes	No	No	No	No	Yes
Unincorporated	Yes	No	Yes (mobile homes)	No	Yes	Yes

APPENDIX II: Approved and pending bills concerning Housing and Economic Development (2013-14 Legislative Session)

Bill Number	Subject	Status	Description
AB 440 (Gatto)	Hazardous Substances Releases – Local	Approved	Would authorize cities, counties and housing authorities to use the brownfield remediation tools previously granted to redevelopment agencies under the Polanco Redevelopment Act.
AB 416 (Gordon)	California Air Resources Board: Local Emission Reduction Program	Approved	This bill would create the Local Emission Reduction Program and would require money to be available from the general fund, upon appropriation by the Legislature, for purposes of providing grants to develop and implement greenhouse gas emission reduction projects in the state.
AB 873 (Chau)	Housing: Emergency Housing and Assistance Funding	Approved	Would authorize the Department of Housing and Community Development to make funding available as a loan with a term of 20 years for conversion to permanent supportive housing for homeless families and individuals.
SB 391 (DeSaulnier)	California Homes and Jobs Act of 2013	Hearing postponed by committee	Enacts the California Homes and Jobs Act of 2013 (Act) which imposes a $75 recording fee on each real estate instrument, paper, or notice except for those documents recorded in connection with a transfer subject to a document transfer tax and directs the money to state housing trust fund.
SCA 8 (Corbett)	Transportation Projects: Special taxes – voter approval	Re-referred to senate appropriations committee	Would provide that the imposition, extension, or increase of a special tax by a local government for the purpose of providing funding for transportation projects requires the approval of 55% of its voters voting on the proposition.

SCA 9 (Corbett)	Local government: Economic Development special taxes: voter approval	Re-referred to senate appropriations committee	Constitutional amendment to lower the vote threshold for local agencies imposing, extending, or increasing a special tax to fund local community and economic development projects within their jurisdictions to 55% if certain requirements are met.
SCA 11 (Hancock)	Local government special taxes: voter approval	Re-referred to senate appropriations committee	Constitutional amendment to lower the vote threshold for local agencies imposing, extending, or increasing a special tax to fund local community and economic development projects within their jurisdictions to 55% if certain requirements are met.
AB 1080 (Alejo)	Community Revitalization and Investment Authorities	Senate Appropriations Committee Held Under Submission	Would authorize local entities, either individually or collaboratively and excluding schools and successor agencies, to form a Community Revitalization and Investment Authority (CRIA). Participating entities agree to direct property tax increment revenues to the CRIA to invest in improvements in specified project areas that are characterized by low household income, high unemployment and crime, and deteriorated public infrastructure and structures.
ACA 8 (Blumenthal)	Local Government Financing: Voter Approval	Senate Government and Finance Committee. Hearing postponed	This measure would amend the California Constitution to lower to 55% the voter approval threshold for a city, county, or city and county to incur bonded indebtedness, exceeding in any year the income and revenue provided in that year, that is in the form of general obligation bonds to fund specified public improvements and facilities, or buildings used primarily to provide sheriff, police, or fire protection services.
SB 731 (Steinberg)	Environment: California Environmental Quality Act	Assembly Appropriations	Would provide that aesthetic impacts of a residential, mixed-use residential, or employment center project, as defined with a transit priority area, shall not be considered significant impacts on the environment.

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