METROPOLITAN
TRANSPORTATION
COMMISSION

Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607-4700
TEL 510.817.5700
TDD/TTY 510.817.5769
FAX 510.817.5848
E-MAIL info@mtc.ca.gov
WEB www.mtc.ca.gov

Memorandum

TO: MTC Commission DATE: April 22, 2016

FR: Executive Director

RE: Advancing the Regional Housing Agenda

Background

The Bay Area's current housing crisis reflects the cumulative impacts of both its robust job market and its abject failure to keep pace with housing construction, especially near growing job centers, over the last 40 years. Since 2010, the Bay Area has added almost 500,000 jobs but only 50,000 new housing units. In addition, significant cuts to federal and state housing programs have further limited the ability of public agencies to meet the growing needs of low- and moderate-income renter households given median wage deflation from 2000-2013. Annual housing funding shortfalls to meet the region's Regional Housing Needs Allocation for 2014-22 and for the Plan Bay Area period exceed $1 billion annually, while households are faced with the most expensive housing market in the nation. These housing challenges and rapid job growth have been accompanied by record levels of freeway congestion, and increased crowding on many regional transit systems. More information on the Bay Area's chronic housing challenge can be found in the brief white paper in Attachment A.

Addressing housing affordability and neighborhood stability in the Bay Area is not only critical to ensuring that all residents have access to decent and safe living conditions but also the ability of the region to continue to add jobs and attract skilled workers, achieve Plan Bay Area's sustainable growth objectives by reducing greenhouse gas emissions from transportation, and meet its equity goals through a stronger link between the locations of jobs and housing.

MTC has historically played a limited, but growing role related to housing, providing incentives and direct grants to local jurisdictions and transit agencies to support market rate and affordable infill development in transit-accessible neighborhoods. Since 1998, MTC has provided planning and capital grants, adopted the Resolution 3434 TOD policy, invested in the Transit Oriented Affordable Housing (TOAH) revolving loan fund, and created the OBAG housing incentive program among other initiatives, as outlined in the timeline in Attachment B.

In the transportation sector, when faced with growing demand and similar funding shortfalls in the 1980's and 1990's, transportation agencies throughout the region initiated self-help transportation programs. By 2010, these programs, including county sales tax and vehicle registration fees as well as Regional Measure 2, raised almost $1 billion annually to supplement stagnant state and federal transportation funding. MTC has also developed a comprehensive legislative advocacy program related to transportation funding and policy. The key question addressed in this memo is whether the region in general – and MTC in particular – should follow a similar self-help model to rapidly expand the production and preservation of affordable housing in the Bay Area.

Based on Commission direction in fall 2015, MTC and the Association of Bay Area Governments (ABAG) convened a regional forum, *Calling the Bay Area Home,* on February 20, 2016, to further consider the role of regional agencies in addressing displacement and affordable housing. Approximately 300 residents, business organizations, elected officials, and other stakeholders attended the forum. A recap of the forum, including videos and position papers, is available on the MTC website: http://mtc.ca.gov/whats-happening/news/february-forum-jumpstarts-conversation-housing-policy.

The event was structured around the three potential policy approaches, recognizing that there is no singular solution to the housing crisis:

- ***Build new housing including market-rate and affordable units.*** The Bay Area has not produced an adequate number of housing units for its growing population for decades. While there are a number of reasons why this has occurred in the past, the region needs new tools and resources to fund and deliver both market-rate and affordable housing near transit and job centers in the future. Higher production of new housing near transit and job centers will, in the long-term, improve housing affordability and neighborhood stability at a regional level.

- ***Protect existing affordable units and low- and moderate-income households that are at risk of displacement.*** Both preservation of at-risk deed-restricted units near transit as well as acquisition and protection of existing market-rate rental units as affordable housing are key strategies to maintain affordability in neighborhoods where rents are rising faster than incomes. Without subsidies though, the market is unable to provide housing for low- and moderate-income households. Even though some public subsidies are available for low-income housing, there are no dedicated sources of funding available to support moderate-income housing.

- ***Advocate for self-help solutions as well as increased state and federal resources.*** The lack of adequate funding for state and federal housing programs and infrastructure funding to support transit-oriented infill housing has coincided with a significant increase in demand for rental and affordable housing production subsidies, thereby creating the perfect storm. Similar to the "self-help" approach for transportation projects, the region needs to raise more of its own revenue to address the growing housing and affordability crisis. In the case of some new regional approaches to housing funding (such as a multi-county tax or bond measure), state legislative authorization will be needed.

Outlined below are short and medium-term initiatives that the Commission could choose to pursue to increase housing and support long-term affordability throughout the region. These initiatives are not intended to represent all of the possible actions that can be taken regionally and no one initiative will be sufficient to address the long-term housing challenges the Bay Area is facing. Instead, the options present a range of approaches in terms of timing, ease of implementation, and magnitude of potential impact in addressing the housing crisis – to jumpstart the discussion and to consider in the context of the institutional question to be discussed in your next item on MTC and ABAG integration. Staff seeks Commission direction on which housing action alternatives to pursue further.

Housing and the One Bay Area Grant Program – Near-Term

As previewed in a December 2015 report to the Commission, preliminary estimates indicate that the Bay Area's share of One Bay Area Grant funds – federal highway dollars known as Surface Transportation Program (STP) and Congestion Mitigation and Air Quality Improvement Program (CMAQ) – will increase by approximately $72 million through the end of the OBAG 2 funding cycle as a result of the enactment of higher authorization levels in the Fixing America's Surface Transportation (FAST) Act. Although the housing forum did not focus specifically on OBAG, the funding program was discussed as a possible strategy to incentivize jurisdictions to tackle the housing affordability challenge.

Staff outlined three initial investment concepts at the recent March 2016 Partnership Board meeting including a distribution of the additional revenues according to the adopted OBAG 2 framework with 45% being directed to the county programs through the existing housing incentive formula ($32 million) and the remaining 55% being directed to various regional programs ($40 million), as well as Options A and B described in more detail below. Since these funds were unexpected and present an opportunity to address critical challenges facing the Bay Area, staff recommends the Commission focus its consideration on Options A and B below rather than the "stay the course" option:

A. Invest the increase on near-term regional transportation priorities that can deliver congestion and transit crowding relief in key corridors. This is similar to previous Commission actions that focused federal augmentation funds toward a key safety investment in the Golden Gate Bridge suicide barrier or bailed out the State Transportation Improvement Program during a prior state funding trough.

- ***Bay Bridge Core Capacity Project:*** The San Francisco-Oakland Bay Bridge Corridor is the most congested in the region and is the workhorse of the seven State-owned toll bridges, carrying nearly 160,000 vehicles westbound across the bay. Transbay peak transit service is also at capacity – with BART, buses and ferries all experiencing crush loads. However, there are opportunities to add a second or third person to many solo vehicles, thus moving more people in fewer cars and buses to make better use of the bridge's capacity. Implementation of near-term, cost-effective operational improvements that offer travel time savings, reliability and lower costs for carpooling and bus transit use will help us make significant progress.

  Potential near-term operational strategies include: establish Bus/HOV lane on West Grand Ave. on-ramp, convert HOV lane to express lanes on Sterling Street on-ramp to facilitate carpooling in eastbound direction, facilitate casual carpooling opportunities in San Francisco and Oakland, provide more frequent, higher-capacity transbay express bus services, deploy arterial signal/transit signal priorities to improve bus speed and reliability, create more commuter parking facilities, offer flexible, on-demand transit serving markets in East Bay, San Francisco and further down the Peninsula, and deploy Intelligent Transportation Systems (ITS) strategies to better manage the entire bridge corridor, including approaches at I-580, I-80 and I-880. The $72 million in OBAG funds could fund these core capacity improvements as well as shore up transit funding for near-term capacity expansion projects within the Bay Bridge Corridor. Additional detail about this proposal can be found in Attachment C.

B. Focus the increase on direct housing investments or a bonus for local jurisdictions that produce housing to help address the region's housing crisis. There are a number of different approaches to use OBAG funding to support housing, including a transportation grant reward, direct investment in housing preservation, or conditioning the receipt of OBAG funds on local housing policies.

Should the Commission choose to focus the OBAG augmentation on housing as outlined in Option B above, staff offers the three different short-term approaches described below for your consideration to support the production and preservation of affordable housing.

1. Reward Jurisdictions: Award the additional OBAG funding available via the FAST Act to cities and counties that produce the most low and moderate income housing in Priority Development Areas from 2015-2019. This would deviate from the current CMA county-based approach by providing direct rewards to local jurisdictions based on prospective housing production using some or all of the $72 million in available funding, offering transportation grants to cities and counties that deliver desperately needed affordable homes.
2. Direct Investment: Invest in a revolving loan fund to convert apartment buildings to deed-restricted affordable units over time. This pilot-project would secure long-term affordability at a lower per-unit cost than constructing new affordable housing. This investment would complement MTC's TOAH investment with a "little brother" that might be called the Naturally Occurring Affordable Housing (NOAH) program. Like TOAH, these new loan funds could be returned to MTC, and MTC can require minimum leverage from other funding sources. This approach would require some exchange of funds to address eligibility limitations of FAST Act funds. MTC's investment could be leveraged by as little as 3:1 or as much as 7:1, preserving 200 – 2,000 homes in the process.
3. Regulatory Approach: Condition additional funding to cities based on what anti-displacement policies are in place, their recent affordable housing production, or their current level of affordability to low-wage workers. Current adopted city and county housing policies have been inventoried by ABAG and a menu of policies for consideration could include accessory dwelling units, by-right development, commercial-linkage fees, just-cause evictions, rent stabilization, or inclusionary zoning.

Attachment D provides more detail on how options 1 through 3 could be operationalized.

Housing Initiatives Beyond OBAG – Medium Term

Under the merged planning department outlined in MTC Resolution 4210 – or the recently recommended Option 7 – there is an opportunity to mobilize new initiatives that are needed for the region to exceed its abysmal 35% RHNA performance for very low, low and moderate income units, while also supporting increased market rate supply. Based on the housing forum and subsequent discussions with stakeholders and city staff, MTC staff has identified three regional initiatives that can further support housing construction for the Commission to consider. These initiatives are intended to have limited or no impact over the medium term on existing transportation funding streams while providing support to a range of communities across the region. As noted above, the Bay Area is a wealthy region with a track record of financing transportation, schools, and open space at the city, county and regional level. Housing should be no different. San Francisco has already adopted a $300 million housing bond, with Alameda County and others considering a fall 2016 measure. These resources, coupled with the strategies below, will be required to put a dent in the annual $1+ billion affordable housing funding shortfall. More details on these efforts can be found in Attachment E, and are summarized in the table below.

Potential Regional Housing Strategies	*Potential for Regional-Level Impact on Housing*	*Timeframe for Implementation*
Within MTC's Existing Authority		
Infrastructure Finance Fund	Medium	1 – 3 years
Outside MTC's Existing Authority, requires State Legislation and Voter Approval		
Regional Jobs-Housing Linkage Fee	High	2 – 5 years
Regional Housing Bond/Fee Program and Trust Fund	Medium	2 – 4 years

Required Legislation

To implement a self-help approach to the region's housing crisis, MTC, ABAG, and their city and county partners will need to secure legislation that allows for multi-county bonds or fees to support housing construction and housing related infrastructure similar to the legislation authorizing a regional gas tax. The region needs both a regular and substantial source of housing funding to address the $1+ billion shortfall and a means to administer those funds through a joint powers agreement or another mechanism.

Staff consultation with affordable housing providers, market-rate developers, foundations and equity stakeholders suggests that there is strong interest in developing a Bay Area housing affordability advocacy platform that advances policy and funding mechanisms specific to the Bay Area and its needs.

MTC has regularly supported bills that will increase the supply of housing and will continue to support key legislative initiatives that can help the region achieve its Plan Bay Area housing objectives. However the region should not count on the state or the federal government suddenly changing course after years of disinvestment in housing. Staff strongly believes that the region must tackle the housing crisis head-on as if the Bay Area's economy and livability depend on it – because they do. We look forward to your discussion about MTC's proper role in that ambitious undertaking.

Steve Heminger

Attachment A: Key Challenges for Bay Area's Housing

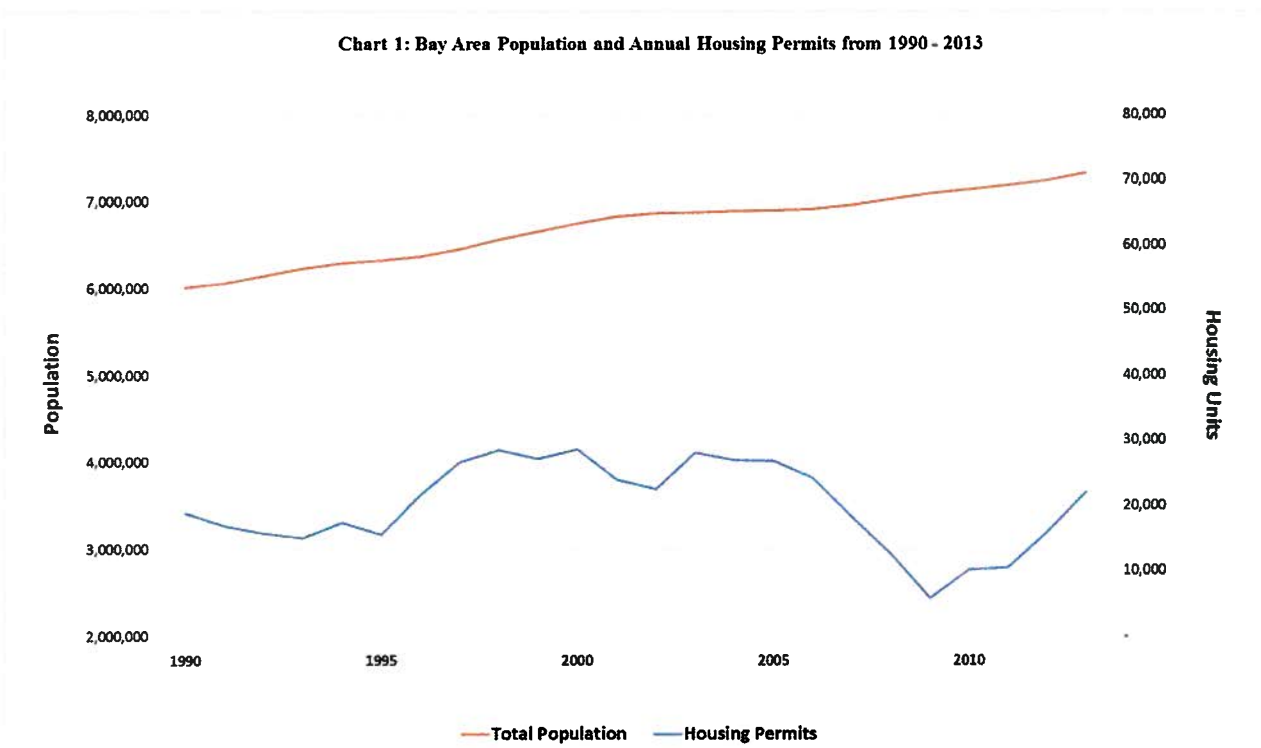
Overview

The Bay Area's housing affordability and neighborhood stability crisis has been decades in the making. It is the cumulative outcome of numerous local, regional, state and federal legislative and regulatory actions (or inactions) over the last 40 years, arguably all the way back to the mid-1970s, when the rate of housing construction in the Bay Area first started to lag behind the rest of the country[1].

Since there are multiple perspectives among various stakeholders on the root causes of and solutions to the current housing crisis, staff has developed this white paper in an attempt to capture these various perspectives on key challenges for review and consideration by the MTC Commission as it develops proposals for regional action. While this paper presents the key findings from staff research, it does not represent a comprehensive account of all the housing issues in the region.

Key Housing Challenges

1. **Housing production in the Bay Area has lagged growth in jobs and residents for decades** – The region has consistently failed to build an adequate number of housing units to accommodate the growing number of jobs and residents in the region. For example, *since 2010, the region has added only 1 new unit for every 5 new jobs*. Chart 1 compares the 25-year population and annual housing permits, noting the region adding population every year during that period. Lack of adequate supply to meet our growing population is a major contributor to high housing costs in the region.



While the cost of housing has increased significantly for both owner and renter households, the level of support and protections for homeowners is far higher than for renters[2], leading to a higher risk of displacement for renters during periods of growth and expansion. If housing production consistently lags demand, a housing crisis, especially for renters during a jobs boom, is unavoidable.

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[1] See CA Legislative Analyst's Office Report, 2016, at http://www.lao.ca.gov/Publications/Report/3345

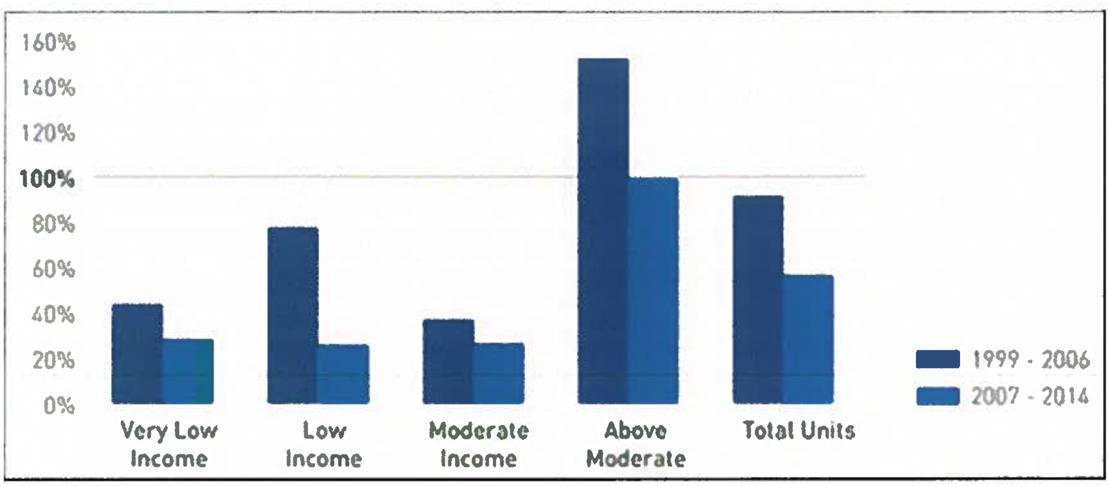
[2] Homeowners benefit from Proposition 13, which limits increases to their property taxes, and from federal tax policies, which allow tax deductions on mortgage interest.

"Our goal is not to stop all development. Our goal is to stop incredibly large development that focus exclusively on market-rate housing."
– Edwin Lindo, Vice President for External Affairs for the San Francisco Latino Democratic Club, in an interview with the San Francisco Business Times referring to a proposed moratorium on building new housing in the Mission District (July 2015)

Typically, *as market-rate rental housing ages, it becomes more affordable* to a wider range of households. For example, as shown in the chart below, market-rate rental housing built in the high-cost cities of Los Angeles and San Francisco between 1980 and 1985 were high in 1985 (rents were over 80%), but the same units were more affordable (rents were close to median of all rental units) in 2011, a 1% increase in affordability year-over-year.

2. **Affordable housing production in the Bay Area has lagged even further behind market-rate units –** Since 1999, the region has built less than a third of the units needed to meet the needs of vulnerable populations such as low- and moderate-income households, seniors and the homeless. *The private market hasn't been able to provide housing for even middle-income households*, especially since the cost of land and construction in the Bay Area has increased faster than the rate of inflation. As illustrated in Chart 2, the Bay Area has struggled to meet all of its Regional Housing Needs Targets, issuing permits for about 35% of the needed low and moderate income housing. This left over 100,000 affordable units unbuilt from 1999-2014. The region exceeded its above moderate (market rate) housing targets over the same period, but too often those homes were far from established job centers. Looking forward, the strong housing market and fewer affordable housing resources are likely to result in similar results going forward.

Chart 2: Share of Regional Housing Needs Allocation Permitted 1999-2014
San Francisco Bay Area (Source: ABAG)



In fact, housing production for moderate income households (the region's middle class) has been lower than any other income category since the 1990s[3]. The market provides a diminishing number of homes for non-affluent buyers and subsidies for moderate income households are largely nonexistent.

"We can't build our way out of the housing crisis . . . but we won't get out without building."
– Rick Jacobus in an article, Why We Must Build – http://www.shelterforce.org (March 2016)

[3] See Regional housing Needs Allocation Report for 1999-2014, ABAG

3. **Even the housing that is built is not "location-efficient" –** Much of the recent housing production has occurred in East Bay jurisdictions while much of the job growth in high-growth industries is concentrated in the West Bay. This has led to longer commutes, more congestion on highways and local streets, higher environmental and health impacts, and higher transportation costs for all workers. These outcomes not only affect Bay Area residents' quality of life, but also limit the economic growth potential of the region's employers.

   The lack of affordable housing close to low- and moderate-wage jobs, which are often co-located with the high-wage jobs, creates an even bigger imbalance for low- and moderate-income households. These households are unable to compete with higher-wage workers for the limited number of market-rate housing units in neighborhoods near jobs and transit. This jobs-housing mismatch has resulted in higher displacement risk, longer commutes and higher transportation costs for lower-wage workers[4].

4. **Instead of facilitating planned development, strong local and state regulations often prevent all development –** Many local jurisdictions have laws that require developers to secure conditional use permits for housing developments that are consistent with adopted zoning codes and general plans furtherer delaying and restricting new housing construction. These requirements – essentially prohibiting "by-right" development, even affordable housing development – are largely non-existent in most other metropolitan regions (New York, Washington DC and Seattle, among others).

> "It is long past time that we as an agency recognize the need. Will it drive some developers away? Probably. Those left standing will understand the requirements."
>
> *– BART Director Joel Keller, City of Antioch, speaking after the agency adopted a policy that requires developers to provide 20% affordable housing units in projects built on BART station property (February 2016)*

Similarly, *state environmental protection laws inadvertently restrict higher-density, mixed-use, infill development*, leading to cost escalation due to delays and litigation. While SB226 and SB743 have attempted to address the issue, the impact of such laws relative to enabling infill development has been modest.

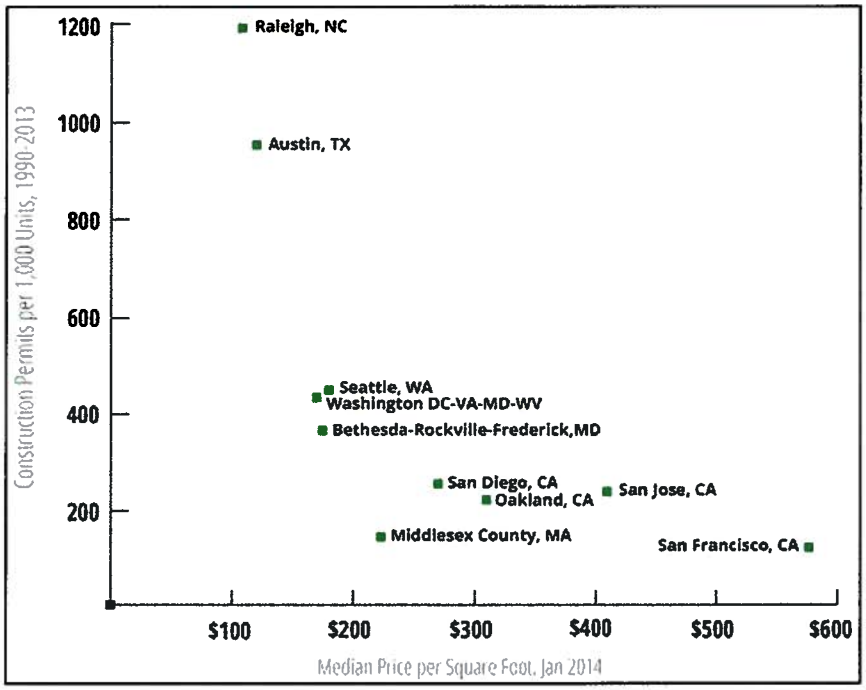
A report released by the law firm Holland & Knight in August 2015 found that projects designed to advance California's environmental policy objectives are the most frequent targets of CEQA lawsuits: transit is the most frequently challenged type of infrastructure project (more than both highways and local roadways); renewable energy is the most frequently challenged type of industrial/utility project; and housing (especially transit-oriented housing) is the most frequently challenged type of private-sector project. *Almost 80 percent of all CEQA challenges were filed against infill development.* These outcomes can only be described as utterly perverse.

> "An adequate supply of housing cannot be built in a day, but will be built faster if we work together and avoid the false and polarizing choice of affordable versus market-rate. We need both, and building new market-rate housing takes pressure off existing supply that serves residents from a wide range of incomes."
>
> *– Dr. Micah Weinberg, President of the Bay Area Council Economic Institute and a renter in Oakland, in a guest commentary – Oakland housing crisis is a deep hole, but it must start digging – in Inside Bay Area (March 24 2016)*

[4] See: http://interact.regionalchange.ucdavis.edu/roi/

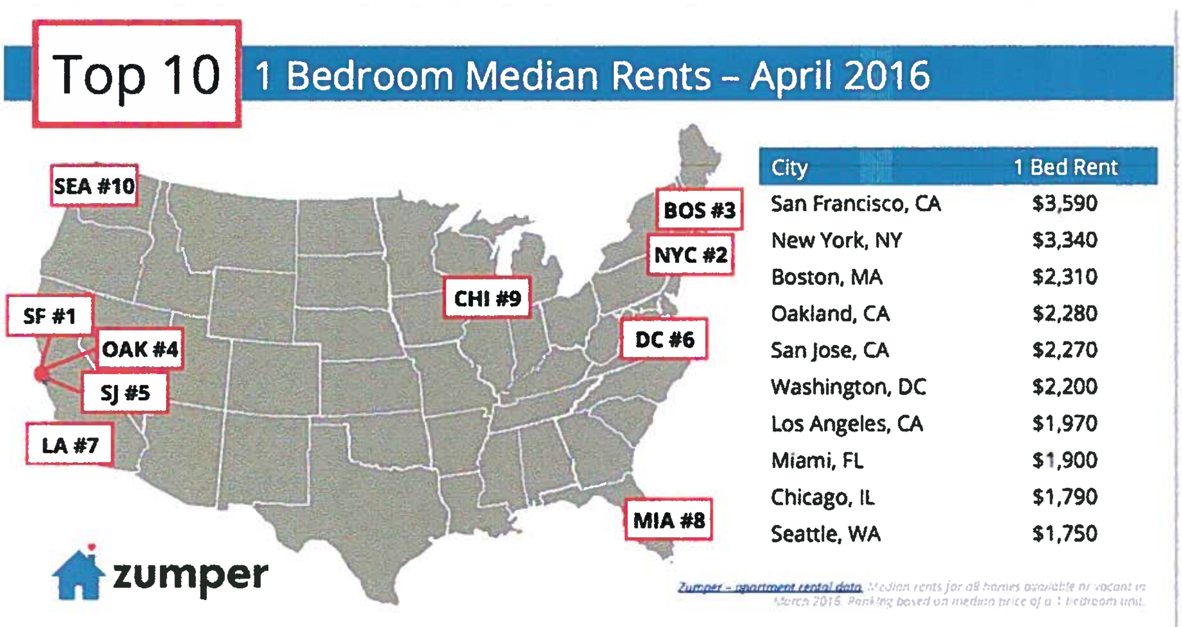
Chart 3 below compares housing cost per square foot in 2013 with housing permits per 1,000 homes in 1990. During that span, Seattle, WA issued construction permits at a rate of a little over 400 new permits for every 1,000 units that existed in 1990. During the same time, San Francisco, CA permitted just 117 units for every 1,000 units that existed in 1990. *In 2014, home prices in Seattle, WA were a little under $200 per square foot, compared to almost $600 per square foot in San Francisco.*

Chart 3: Home Prices and New Construction in Technology Hubs 1990-2013 (Source: Trulia)



The cost of housing is not limited to home purchases. As seen in Chart 4, the Bay Area is now home for four of the five most expensive rental markets in the nation.

Chart 4: Cities with the Highest Rents, 2016 (Source: Zumper Real Estate)



5. **Low- and moderate-income renters face high displacement risk in almost every city –** As housing costs rise, lower-income renters are often forced to move to neighborhoods farther away from jobs, transit and amenities. The lack of adequate tenant protections, or availability of subsidized or "naturally affordable" market-rate units in the most "desirable" neighborhoods, has accelerated displacement of lower-income residents and businesses from the urban core.

> "It made my heart sink and my stomach feel bad. We are not against affordable housing. We just want to see it done in a sensible, responsible, good way."
>
> *– Marin resident and President of the Lucas Valley Homeowners Association, Maggie McCann, referring to filmmaker George Lucas' proposal to use $100 million of his own money to finance 224 low-income apartments on a piece of land he owns called Grady Ranch (June 2015)*

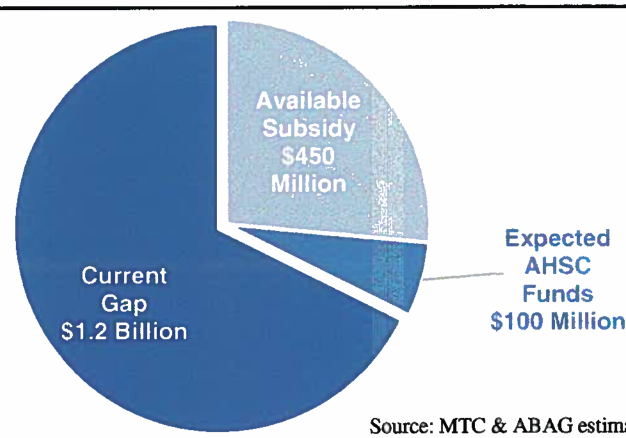
Without their strong rent stabilization and just cause provisions in place, cities such as San Francisco, East Palo Alto and Oakland would have been expected to lose even more lower-income renters. Despite the benefit of tenant protections many lower-income renters have relocated to more affordable neighborhoods in the suburbs, unintentionally displacing existing residents in these communities to locations farther from the region's core and related employment centers. This domino effect is one reason why *even the most affordable cities in east Contra Costa and Solano County are experiencing displacement*. Communities that add jobs but not sufficient housing pose the highest risk of displacement to lower-income renters. Communities that have historically underbuilt market-rate and affordable housing have lost the largest percentage of lower-income renters since 2000[5]. These

6. **Elimination of Redevelopment Authorities has further restricted infill development and affordable housing production –** The dissolution of redevelopment agencies by the state has eliminated a large source of funding for infill and affordable housing projects, and restricted the ability of local jurisdictions to secure and assemble parcels, fund infrastructure improvements that support market rate and affordable housing development. *Redevelopment authorities in Alameda County contributed more than $500 million for affordable housing between 2001 and 2011[6].*

> "The scale of the affordable housing crisis and the need for funding to address it over the next five years is much greater than $250 million — more like twice that amount (in San Francisco). We appreciate the mayor's commitment to a bond measure, and we urge him to push as far as possible."
>
> *– Peter Cohen, Director of Council of Community Housing Organizations, referring to Mayor Ed Lee's proposal for a bond issue to fund affordable housing in San Francisco (February 2016)*

7. **Declining state and federal resources have constrained the ability of public agencies to respond** As state and federal funding for housing programs has declined, the number of low- and moderate-income households that are rent burdened has increased significantly. Chart 5 shows the current annual funding gap to construct the low and moderate income units allocated to the Bay Area for the 2015- 2022 regional housing needs cycle. The lack of resources, in light of the dissolution of local redevelopment functions and the end of the Proposition 1C funding, creates a tremendous challenge to the region as it seeks to catch up with its past low and moderate income housing construction shortfall.

Chart 5: Bay Area Low & Moderate Funding Gap (2016)



Source: MTC & ABAG estimates

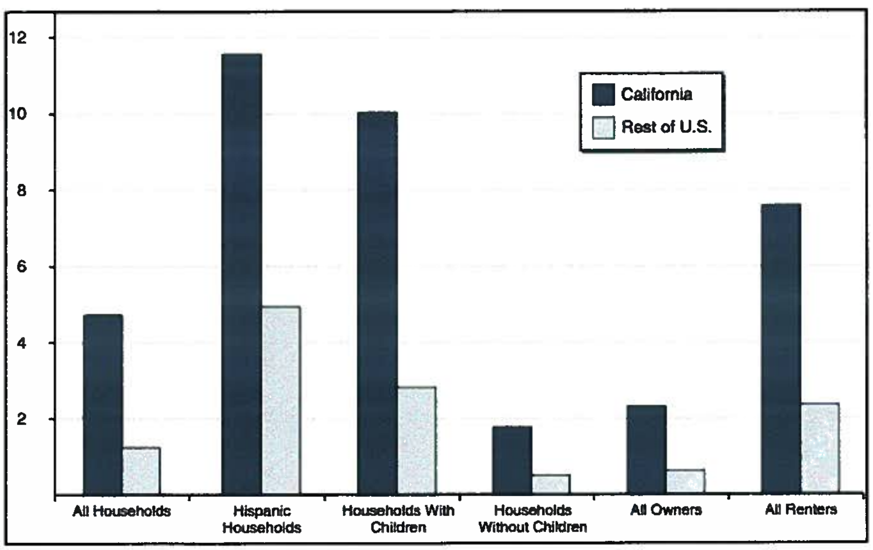
[5] See: http://planbayarea.org/pdf/prosperity/research/REWS_Final_Report.pdf
[6] See: https://www.acgov.org/cda/hcd/documents/Lost-Redevelopment-funds-impact-Affordable-Housing.pdf

8. **Availability of developable land is limited due to geography and strong land protections –** The Bay Area has done an excellent job of protecting large tracts of wetlands, agricultural land and open space compared to most other metropolitan areas. This effort has limited sprawl on "greenfields", expanded recreational opportunities and preserved scenic and natural resources. However, the resulting constrained supply of developable land coupled with significant and multiple challenges to infill development has severely restricted housing production across the region.

   As mentioned before, the lack of housing production, in the long term, creates conditions for significantly higher housing costs in later years. This dynamic has also led to the long-term trend of Bay Area workers commuting from nearby regions with comparably affordable housing. These long distance commutes to homes, often developed on former farmland, leads to higher per capita greenhouse gas (GHG) emissions and traffic congestion at the region's gateways.

9. **Wages of low- and moderate-income households have lagged behind rising housing costs –** Even as housing costs rise and funding for housing programs decline, wages of low- and moderate-income households have not kept pace with the rate of inflation. Real wages for many renters have actually declined in terms of purchasing power, with 2013 median household income still below 2000 median household income though it is on the rise. Chart 6 shows a critical way wage and housing pressures manifests itself, with high crowding throughout the state at a rate nearly four-times the national average. California now has the highest share of overcrowded renters in the nation. *Nearly 30 percent of the country's households living in overcrowded conditions are in California* (CHPC, 2014).

Chart 6: Crowding Rates in California and the Rest of US, 2013 (Source: LAO Report, 2016)
Percentage of Household Type Living in Crowded Housing



10. **Proposition 13 has resulted in fiscalization of development decisions –** State law caps property tax increases for owners of residential and commercial property. While Prop 13 benefits long-term homeowners, it reduces the fiscal benefits of housing when compared to retail or commercial development, leading many jurisdictions to view housing as a "net loss". *Homeowners also lack the motivation to allow new residential development in their neighborhoods*, since lower supply provides significant financial benefits in terms of higher housing values and increased equity.

    On the other hand, Owners of commercial property lack the motivation to develop vacant parcels since the "cost" of holding these properties is relatively low, and a potential windfall from rising land values over time relatively high. Consequently, even in "hot" real estate markets, many parcels remain vacant and underutilized. Proposition 13 is another key aspect of the perfect storm of heavy regulation, limited subsidies and disincentives that together make the Bay Area unaffordable for many families in 2016. Peer metropolitan regions in other states do not have a comparable statute that provides extreme advantages for long-term homeowners and puts entry level households at a distinct disadvantage.

11. **A relatively large number of currently deed-restricted affordable housing units are at risk of conversion to market-rate units** – A recent report[7] published by the California Housing Partnership Corporation (CHPC) identified around 6,000 units in the region that are at risk of conversion. A large share of these units are located close to transit. All of these units currently house low-income renters. Preserving these units as permanently affordable housing is significantly cheaper than building new affordable units. Unfortunately, most cities in the region do not have a plan to systematically identify at-risk affordable units and prevent these units from being converted to market-rate units. State law also does not allow local jurisdictions to take full RHNA credits for preserved units.

Conclusion

Staff's analysis of the Bay Area' multi-decade housing affordability shortfall has made it clear that, like most chronic problems, the region's shortage of housing cannot be solved with a single solution. Effectively moving the needle on housing affordability in a manner that expands housing choices, reduces displacement pressures on our most vulnerable citizens and strengthens the connection between transit, jobs and housing requires a multi-pronged strategy. The region must pursue a multi-pronged strategy that emphasizes the construction of new homes for all incomes, the protection of the region's most vulnerable households, and the need to advocate for the ability to pursue local and regional solutions.

[7] See: http://chpc.net/services/preservation-of-at-risk-housing/. See also: http://planbayarea.org/pdf/prosperity/Reconnecting_America_Preserving_Affordable_Housing_Near_Transit.pdf

Attachment B: MTC Housing Initiatives, 1997-2016

MTC Land-Use Initiatives: 1997–2016

1997-1998

Transportation for Livable Communities (TLC)

Planning and capital grants totalled over $250 million granted during the life of the program. The program tied grants to planning and zoning work done by cities and counties to attract new development to transit communities throughout the region.

2000

Housing Incentive Program

The Housing Incentive Program used transportation dollars to reward cities that help to reduce traffic congestion by building higher-density, affordable housing near public transit stations.

2001

Resolution 3434 Transit Expansion & Transit-Oriented Development (TOD) Policy

MTC adopts the Transit-Oriented Development (TOD) Policy for Resolution 3434 transit expansion projects that conditions the allocation of regional discretionary funds on transit-supportive local land use plans and zoning

2005

Station Area Planning Program

As part of the TOD Policy, MTC launches the PDA Planning Program to assist cities in planning around transit stations. Over $20 million has been awarded through this program, which has resulted in planning and zoning for over 65,000 homes and 100,000 jobs near transit.

2007-2008

FOCUS Program

ABAG, MTC and other regional agencies establish FOCUS, a regional program that promotes linkages between land use and transportation by encouraging future development in key locations — priority development areas (PDAs) — while conserving the region's open spaces.

2008

Parking Toolbox

MTC produces a toolbox/handbook to provide guidance to cities on parking policies to support smart growth. The program delivers technical assistance and planning support to over 40 Bay Area cities.

2009

Realignment of TLC to PDAs

MTC revises the TLC program to direct capital, planning and technical assistance grants to PDAs, allowing cities to focus on larger-scale planning.

2011

Transit-Oriented Affordable Housing Fund (TOAH)

MTC approves a $10 million commitment through the Transportation for Livable Communities program to establish a new $50 million revolving loan fund for affordable housing near transit. TOAH was later augmented with $10 million for a total loan fund of $90 million.

2012

OneBayArea Grant Program (OBAG)

In May 2012, MTC approved a new funding approach that directs specific federal funds to support more focused growth in the Bay Area. The OneBayArea Grant (OBAG) program commits $320 million over five years.

2013

Plan Bay Area

MTC and ABAG adopted Plan Bay Area, an integrated long-range transportation and land-use strategy. The plan builds on previous land use and transportation plans and focuses 78 percent of new housing and 62 percent of new jobs in PDAs. It also devotes $14.6 billion to OneBayArea Grant investments.

mtc graphics ms– 4.15.16

Attachment C: Transportation Focus: Bay Bridge Core Capacity Project

Problem Statement

Auto demand on the San Francisco-Oakland Bay Bridge exceeds vehicle capacity. With future population and job growth, congestion will only worsen over time. But we can move many more people in the same number of vehicles that exist today, making better use of the bridge's capacity by increasing the number of carpools, shuttles and buses traversing the bridge corridor. Less than half of the seats are currently filled by passengers so carpooling alone could potentially double person throughput. Traffic operational improvements that reduce time spent in congestion compared to driving alone will make carpooling and transit more attractive. Furthermore, operational improvements that are implemented relatively quickly and at a low cost can be very effective in relieving congestion and increasing core capacity within the Bay Bridge corridor.

Bay Bridge Core Capacity Project: $40 Million Investment Package

Operational Strategy	Near-Term Operational Improvement	Cost* ($M)
Implement HOV improvements	1. **West Grand Ave. HOV/Bus Only Lane:** Convert shoulder of West Grand Ave. on-ramp to Bus/HOV only lane to provide direct access to the I-80 Bus/HOV ramp on the right side of the toll plaza	**$ 7**
	2. **Sterling Street On-Ramp Express Lane:** Convert on-ramp HOV lane to express lane and add occupancy detection technology to support CHP enforcement to provide time savings that attracts more carpooling during evening eastbound peaks	**$10**
	3. **Casual Carpooling:** Establish casual carpooling pick-up locations at key locations in San Francisco and Oakland	**$ 1**
	4. **Bridge Corridor Management Technologies:** Implement a suite of technology improvements – such as cameras, traffic detection loops, occupancy detection and signs – to operate and manage the Bay Bridge and its approaches from I-80, I-580, and I-880 as a unified network	**$ 2**
Improve transit core capacity	5. **Higher-Capacity Express Bus Fleets:** Purchase double-decked buses to operate on most productive Transbay express bus routes for AC Transit and WestCat	**$ 7**
	6. **Pilot Express Bus Routes:** Pilot new AC Transit Transbay routes to serve high demand inner East Bay markets	**$ 6**
	7. **Transit-Focused Arterial Operational Improvements:** Improve arterial operations through adaptive signals and transit signal priorities technology to improve bus speed and reliability	**$ 1**
	8. **Commuter Parking:** Establish commuter parking facilities in East Bay to encourage carpool and express bus ridership	**$ 5**
Facilitate shared mobility	9. **Vanpooling:** Provide increased vanpooling opportunities in the Bay Bridge corridor	**$ 0.2**
	10. **Flexible, On-Demand Transit:** Provide on-demand transit services between East Bay and San Francisco core and beyond	$ **0.8**
	11. **Shared Mobility:** Private companies such as Lyft, Scoop, Carma, Uber, RidePal, etc. to provide carpooling, vanpooling, shuttles, and buses, taking advantage of the bridge corridor operational and infrastructure improvements	**$ 0**

*Preliminary estimates subject to further refinement **Total: $ 40 M**

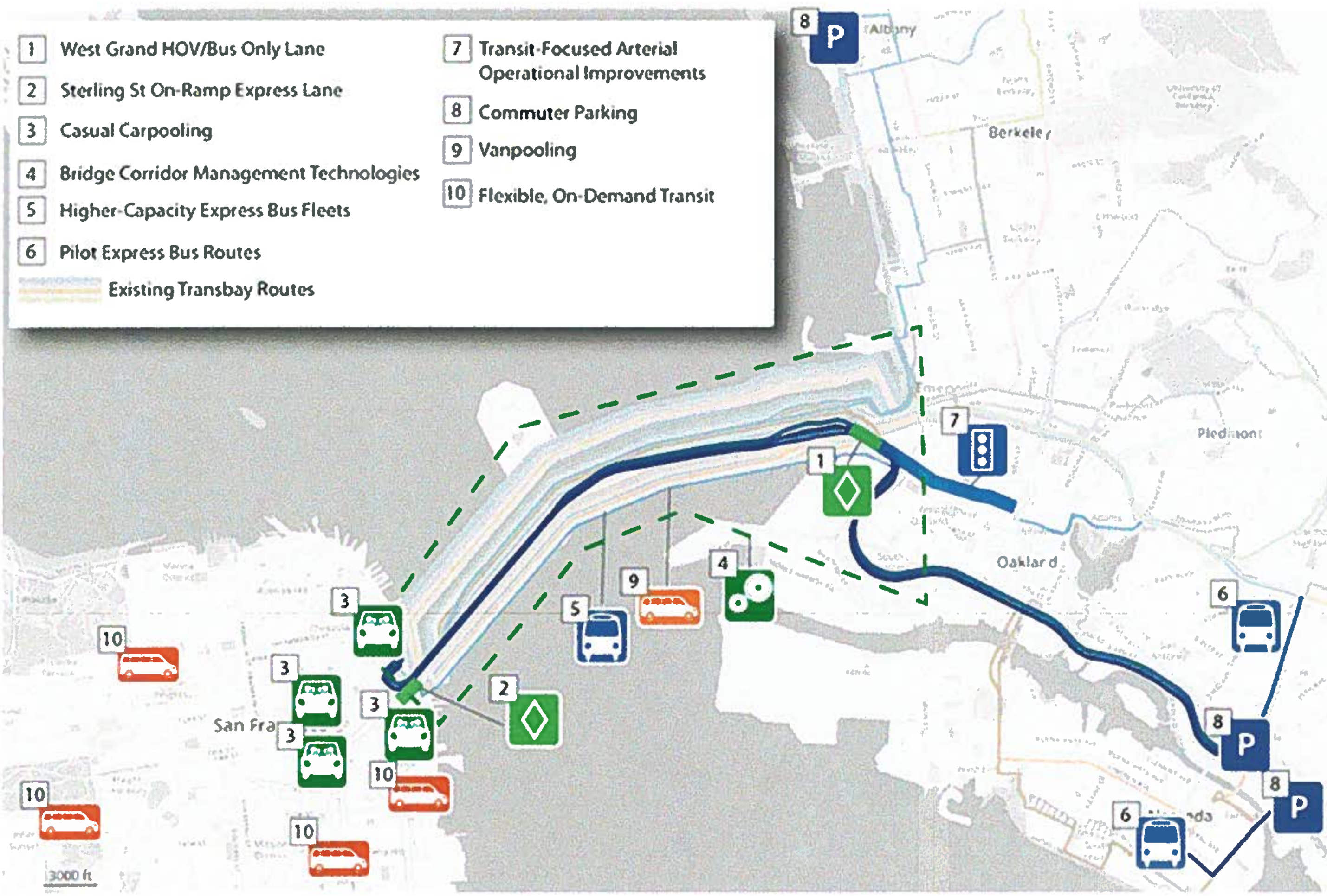
Core Capacity
Guiding Principles

★ Moving more people in the same number of vehicles between San Francisco and the East Bay will result in more efficient operations and greater person throughput within the Bay Bridge corridor

★ Operational improvements designed to offer travel time savings and ease of access to carpooling and transit use will effectively encourage and support adoption of those modes

★ Regional investments that improve core capacity within the Bay Bridge corridor should be taken advantage of by public and private service providers alike, such as public transit operators and shared mobility companies that are releasing new services focused on carpooling

Bay Bridge Core Capacity Project



Other Opportunities. In 2010, congestion pricing was implemented, charging $2.50 for carpools and $6 for all others during peak periods. As part of a potential Regional Measure 3, there may be an opportunity to reduce the HOV toll rate to create a greater differential between carpool and non-HOV toll rates to provide greater incentives to take transit or carpool.

Attachment D: Short-term Housing Initiatives

1. Reward Cities and Counties: One Bay Area Grant (OBAG) Program

Example:

From 2015-19, a local jurisdiction has issued permits to about 60% of its allocation for low- and moderate-income units in its PDA. This program rewards the top 20 jurisdictions based on affordable units permitted between 2015 and 2019. The jurisdiction becomes automatically eligible for additional FAST Act transportation funds. Table 1 illustrates what a distribution would have looked like for the period from 2007-2014. The proposed program would be prospective and therefore distribution amounts are not yet known.

Structure:

MTC would set aside a portion or all of the additional revenue received through the FAST Act for a "bonus" program that rewards local jurisdictions that have permitted a significant share (threshold TBD) of their RHNA allocations in Priority Development Areas.

The Bay Area has permitted only about a third of all very low, low and moderate income RHNA allocations over the last 2 cycles. This program is intended to encourage jurisdictions in the Bay Area to permit new homes near transit and jobs and reward them with transportation funds. The local jurisdiction may count accessory dwelling units, micro units, and pre-fabricated dwellings toward their numbers, even if these units do not qualify for RHNA for some reason.

Leverage:

While the amount of "bonus" funds awarded may be limited, local jurisdictions would be eligible for them only if they permitted a significant number of affordable housing units.

Table 1. Illustration of Possible Distribution for 2007-2014 Permitting Low and Moderate Housing

Jurisdiction	Low & Moderate Income Units	Rank	Possible FAST Bonus
San Francisco	6,635	1	$ 18,427,712
San Jose	2,956	2	$ 8,209,844
Sunnyvale	2,178	3	$ 6,049,067
Oakland	1,689	4	$ 4,690,943
Santa Rosa	1,450	5	$ 4,027,156
Oakley	1,307	6	$ 3,629,995
San Leandro	973	7	$ 2,702,361
Pittsburg	871	8	$ 2,419,071
Antioch	862	9	$ 2,394,075
Alameda Co	763	10	$ 2,119,117
San Ramon	753	11	$ 2,091,344
Vacaville	746	12	$ 2,071,902
Santa Clara	721	13	$ 2,002,469
Milpitas	709	14	$ 1,969,141
Rio Vista	662	15	$ 1,838,605
Santa Clara Co	620	16	$ 1,721,956
San Bruno	596	17	$ 1,655,300
Fremont	492	18	$ 1,366,456
Contra Costa Co	471	19	$ 1,308,131
Richmond	470	20	$ 1,305,354
TOTAL	**25,924**		**$ 72,000,000**

2. **Direct Investment: Naturally Occurring Affordable Housing (NOAH) Pilot Program**

Example: The owner of a 28-unit apartment building, which is located in a transit-accessible neighborhood experiencing rising rents, is selling the entire property. Among many potential buyers is a non-profit housing organization (NPHO) that wants to purchase the building, bring it up to code, and protect it as deed-restricted affordable housing for households earning less than 120% AMI. The NPHO is able to secure a low-interest loan through the NOAH program to purchase the property and keep it affordable for the long-term.

Structure: MTC would provide low-interest revolving loans to non-profit housing entities to purchase, rehabilitate and protect market-rate units as permanently affordable units for low- and moderate-income renters. The program would also be available to extend expiring protections on currently deed-restricted units and for major rehab.

Leverage: Potentially significant. The NOAH program is estimated to leverage from 3:1 to 7:1 times MTC's investment, depending on location, building type, and the availability of other funds. Acquisition, rehabilitation and protection is also a more cost-effective strategy compared to just building new affordable units. Total units preserved range from approximately 200 at 3:1 leverage up to roughly 2,000 for a $72 million investment at 7:1.

3. **Regulation: Conditioning OBAG Funding**

Example: A city permitted over 50% of its low and moderate income RHNA from 1999-2014 and has over 10% of its housing affordable to low-wage workers. Based on this analysis, the city is eligible for additional OBAG funding since it already has a certified housing element and a complete streets resolution consistent with adopted Commission policy.

Structure: Based on an assessment of each city and county's displacement risk, low-income worker in-commuting, past RHNA performance and the current affordability of the community, some cities would be required to develop a Neighborhood Stability and Affordability Plan that complements their adopted housing policies to increase city/countywide affordability. Cities and counties meeting RHNA performance and/or current level of affordability would not be required to take any additional actions to be eligible for additional FAST funds.

MTC currently requires cities and counties seeking OBAG funding to have a certified housing element. Housing elements, however, do not require cities to approve zoning applications and in turn to produce housing to ensure affordability for a share of their residents. Housing elements also do not require a response to rapid rent escalations that most Bay Area cities and counties are experiencing.

Leverage: This approach is intended to increase short and long-term affordability in all cities seeking OBAG funding. This approach does not condition the release of FAST funds to jurisdictions based on a menu of adopted housing policies as presented by the Six Wins Coalition in fall 2015. Instead the process identifies communities with an above average displacement risk or high cost of housing and has them develop a response based on their community's needs.

Attachment E: Medium-Term Initiatives

1. Within Existing Authority

A. Infrastructure Finance Fund (IF2)

Example:	A 72-unit, mixed-income housing project with 20% affordable units at 80% AMI has secured a majority of its funding and financing. But it lacks equity to secure that extra funding for off-site infrastructure investments and tax credits. Fortunately, the local jurisdiction can secure an $8 million low-interest infrastructure financing package via the IF2 to bridge this gap. The project now "pencils out."
Structure:	Using BATA's approved investment policy, the IF2 program would invest in instruments that provide low-interest infrastructure loans in relation to infill projects that are consistent with Plan Bay Area – TOD projects encompassing affordable housing in high-priority PDAs.
Applicability:	The IF2 program would provide gap financing for transportation-related infrastructure associated with housing developments with a sizable affordability component in high-priority PDAs that would otherwise fail to "pencil out" due to high off-site infrastructure improvement costs. Senior staff at the cities of San Jose, Oakland and affordable and market-rate housing developers have indicated that the lack of such low-cost infrastructure financing is a key barrier to housing development ever since redevelopment agencies were eliminated. IF2 could be used as a "but for" funding for infrastructure improvements tied to new housing developments (including streetscape improvements, sewer/water infrastructure, bicycle/pedestrian improvements, etc.). Low-interest infrastructure financing could be a "game-changer," especially in emerging transit-accessible PDAs in the East Bay and North Bay.
Leverage:	Significant. The IF2 will make projects more attractive for financing to other lenders and if structured appropriately could serve as the local match for tax credits and other programs.
Proposed MTC Funding Source:	BATA funds, guided by BATA's approved investment policy.
Legislation Required:	None
Potential Impact:	Significant. If of a sizable amount, even this one-time investment can jump start numerous projects in PDAs.

2. Outside Existing Authority

B. Regional Jobs-Housing Linkage Fee

Example:

A company is building its new facility in a location with limited transit access and where the number of existing jobs far outnumber existing housing units. Most workers in this sub-region already commute long distances by car resulting in a high level of VMT per capita.

Irrespective of any development or impact fee charged by the local jurisdiction to the firm, the employer pays a regional jobs-housing linkage fee of $5000 per employee to mitigate regional transportation impacts caused by adding 2,000 new workers in a "location-inefficient" zone that will significantly increase total VMT and GHG.

Structure:

The jobs-housing linkage fee would be based on a nexus study utilizing MTC's travel model that estimates vehicle-related GHG emissions based upon geographic location. A portion of the funding would support demand management programs to reduce VMT and GHGs in the area where commercial development is occurring, and a portion would support affordable housing for low- and moderate-income households in high-priority PDAs.

The jobs-housing linkage fee program is similar in design to the state's Cap and Trade Program that is designed to charge a fee for emitting GHGs, and in turn invests these revenues in programs that reduce emissions.

Applicability:

This fee program would apply to any new commercial development of a certain size (threshold to be determined) anywhere in the nine-county region. It would not be applicable to housing developments.

The fee program would directly address the housing and transportation impacts of new, regionally significant commercial development, without affecting local control over land use and development decisions. The fee program would also provide a mechanism for large employers and businesses to participate in solving the region's housing and transportation crisis.

Lastly, the fee program will encourage "location efficient" uses by providing for some leveling of the playing field between high-VMT zones (that have a skewed jobs-housing ratio) and low-priced and low-VMT zones (that are well served by transit, and have a better balance between jobs and housing) leading to a better fit between jobs and housing in the region over time.

Leverage:

Very Significant. The fee program would provide a significant new source of regional funding for workforce housing in "location-efficient" zones as well as transportation projects that serve these locations. It will also provide an effective tool to advance Plan Bay Area implementation.

Legislation Required

State legislation would be needed to provide the legal and regulatory basis for establishing the fee program.

Potential Impact:

Very Significant. The jobs-housing linkage fee program could be a potential "game changer," which not only raises new revenue for needed housing and transportation investments but also promotes a more "location efficient" land use pattern without weakening local land use authority.

C. Regional Housing Bond/Fee and Trust Fund

Example:

A local jurisdiction has purchased a parcel that can accommodate 65 rental units for households that earn less than 80% of the county AMI. The parcel is within a PDA and provides regional transit connections to multiple job centers. Unfortunately, the affordable housing developer has struggled to secure adequate subsidies for the project. The developer is short by $6 million.

The Regional Housing Trust Fund has raised $700 million via a multi-county housing bond and pooled $26 million from eight local jurisdictions through their respective housing programs. The regional housing trust fund entity allocates $6 million to the project.

Structure:

A regional entity, potentially MTC, would establish a regional housing trust fund that collects or aggregates revenue from existing inclusionary programs or other fee programs for affordable housing construction in transit-accessible locations. It would also raise funds via bond or fee with voter approval after securing needed state legislation to enable this function to address the $1+ billion affordable housing shortfall.

The approach will complement county housing bonds that have passed or are under development to substantially grow the pool of available funding for housing. For example, a regional 1/8 cent sales tax would generate almost $200 million annually for housing in the Bay Area; a $25 parcel tax could generate $1 billion; a $75 real estate recording fee based on AB 1335 could generate almost $200 million annually.

Applicability:

Many small- to medium–sized jurisdictions in the Bay Area require market rate housing developers to pay an inclusionary housing fee, which then funds low- and moderate-income housing construction. However, regardless of size, most local jurisdictions have not been able to approve over 50% of their RHNA.

By aggregating these funds across jurisdictions and raising new funds, a regional housing trust fund can put these collected fees to use more readily and dramatically increase affordable housing funding. The trust fund could pool resources for a single project, or provide gap funding to multiple projects within the same county.

Leverage:

Significant. Not only would the trust fund pool existing funding across multiple jurisdictions to fund affordable housing projects, but it could provide the mechanism for collecting new revenues through the Value Capture and Jobs-Housing Linkage Fee programs.

Legislation Required:

Yes, MTC and participating cities / counties would need to seek state legislation to establish and operate a regional housing trust fund. Additional MOUs may be needed with each county.

Potential Impact:

Substantial. With additional sources of funding of regular funding, the trust fund can make an immediate impact of financing more housing.