



Vacaville Development, Solano County
Photo: Karl Nielsen

Chapter 3:

Funding Programs

BAHFA will provide a wide range of financing for affordable housing Production and Preservation, as well as funding for Protections. The loans, grants, and other financing tools BAHFA will make available comprise its “Funding Programs.”

At launch, BAHFA’s Funding Programs will include:

- The **Multifamily Rental Production Program**, which invests in new housing Production and seeks to leverage complementary funding from additional sources outside of BAHFA to achieve beneficial housing outcomes at scale.
- The **Innovation Program**, which seeks to achieve faster, more cost-effective housing than is possible using current funding methods by piloting new models for affordable housing delivery.
- The **Preservation Program**, which prevents displacement of low-income households from their existing homes and stabilizes communities by rehabilitating existing buildings.
- The **Tenant Protections Program**, which funds specific strategies aimed at keeping vulnerable residents housed and preventing homelessness.

The initial Funding Programs are designed to meet challenges the Bay Area faces today. As conditions across the region change, BAHFA will develop additional, new Funding Programs designed to respond to emerging needs and opportunities.

In concert, the Funding Programs pursue these overarching goals:

- **Integration with the Equity Framework.** Among many others included in the Equity Framework, the Funding Programs will seek to achieve the following equity objectives:
 - Delivery of new housing that serves households and communities with the greatest need, such as permanent supportive housing and investments in historically disinvested communities.
 - Preventing residents, especially low-income households and those at risk of homelessness, from displacement and homelessness through housing preservation and tenant protection measures.
 - Promotion of climate and environmental justice through investments in transit-oriented projects that also employ sustainable construction and design standards.
 - Expansion of opportunities for community-based and emerging developers on projects that reflect strong community support.

- **Operational Self-Sustainability.** Revenue and fees generated through provision of the Funding Programs will allow BAHFA to maintain high-quality operations and continue to invest across the 3Ps into the future. To establish itself as a financially self-sustaining agency able to provide value to the Bay Area after the 2024 GO bonds are spent, BAHFA must provide more than subsidies; by making loans, BAHFA will generate interest income and fees that can be reinvested to sustain its programs. This income can also be reinvested as project subsidies into new housing developments and fund Protections programs without further taxpayer support. Finally, these loans will be the backbone of BAHFA's balance sheet and allow BAHFA to build the asset base necessary to access the capital markets to address the Bay Area's ongoing affordable housing needs.
- **Scale.** To meet its housing needs after decades of underproduction, the Bay Area requires funding at scale. The 6th Regional Housing Needs Assessment Allocation ("RHNA") cycle for 2023-2031 identified the need for over 441,000 new housing units in the Bay Area, with more than 253,000 of these affordable to households below 120% of AMI.



Richardson Apartments, San Francisco
Photo: Noah Berger

3.1 Multifamily Rental Production Program

The construction of new affordable rental housing is almost always funded with a combination of low-income housing tax credits (LIHTCs), tax-exempt or taxable debt, and subsidies from state or local sources. Many of these sources — tax credits, tax-exempt debt, and state and local subsidies — are chronically in short supply and disbursed competitively, creating a significant bottleneck for Bay Area affordable housing production.

To move more projects forward, **BAHFA will provide low-cost construction and permanent loans and subsidies.** Initially, BAHFA expects to focus on projects' permanent financing needs (i.e., post-construction loans with 15- to 40-year terms). BAHFA may also provide construction financing. Projects will benefit from the lower cost of loans available from BAHFA, which will support project feasibility and reduce subsidy need, as well as from BAHFA-provided subsidies. BAHFA expects to impose per-unit caps on its lending in the interest of achieving cost control goals and shifting the industry perspective towards more cost-efficient development.

Housing that sets aside a high percentage of homes for unhoused people (permanent supportive housing: PSH) and/or extremely low-income (ELI) households, which BAHFA has identified as an investment priority, requires ongoing operating subsidies in addition to development capital for building. Unfortunately, reliable and renewing operating subsidies are scarce. The California Constitution currently prevents BAHFA from spending GO bonds on rental assistance and operating subsidies, which means BAHFA cannot independently finance a PSH or ELI building. BAHFA will, however, seek out partnerships with jurisdictions and public housing authorities to the greatest extent possible to assist in the development of more PSH/ELI homes. Regardless of the source of operating subsidies, BAHFA's lower-cost loans and subsidies can still help to support project feasibility for developments that serve residents with the highest levels of need.

Additional details about BAHFA's Multifamily Rental Production Program are included in Appendix 3.A.



Multifamily home construction, Santa Clara County
Photo: Noah Berger

3.2 Innovation Program

The region's affordable housing costs continue to rise at a pace that impedes the Bay Area's ability to deliver the housing it needs. BAHFA is intent on encouraging cost control by prioritizing innovation as well as known methods for achieving cost savings (e.g., streamlined entitlements, efficient design, and reducing the number of different capital sources per development). This approach does not mean quality is sacrificed. Rather, it shifts perspective – we need more housing and, by demanding a cost-focused approach, we can bring costs down and thus more effectively deliver housing at the scale needed.

BAHFA is especially focused on investing in cost-effective housing that does not require low-income housing tax credits and tax-exempt bonds, which have been oversubscribed in recent years, leading to an expensive and slow-moving funding bottleneck for Bay Area affordable developments. Both construction and permanent financing from BAHFA are anticipated for these projects. BAHFA can participate in “efficient delivery” developments for both middle-income households (up to 80% of AMI) and PSH, if the sponsor has secured operating subsidies.

ADDITIONAL INNOVATION PROGRAMS MAY INCLUDE:

- **Affordable Unit Buy-Downs:** Subsidies provided to market-rate developers to increase the number of affordable homes included in the development, whether as an increase to existing inclusionary housing ordinance obligations, or, in cities without inclusionary requirements, to support provision of some affordable homes. The purpose here is to provide more affordable homes than market-rate developers would otherwise be required to produce. BAHFA's investment will be permanent loans issued when construction is complete.
- **Adaptive Re-Use: Construction and/or Permanent Loans** for conversion of buildings from commercial to residential use, acknowledging the need to reimagine commercial districts and reinvigorate aging and obsolete malls, office buildings, and other spaces given changes in employment trends since COVID-19.

Additional details about BAHFA's Innovation Program are included in Appendix 3.B.



Residential neighborhood, Alameda County

Photo: Karl Nielsen

3.3 Preservation Program

BAHFA's Preservation Program provides investments in three different scenarios, all of which pursue the same goal of keeping low-income residents safely in their homes with affordable housing costs and preserving the affordability levels for decades to come.

MARKET-RATE BUILDING CONVERSIONS

The first Preservation investment category is the conversion of market-rate buildings into deed-restricted, long-term affordable housing. This effort addresses the fallout from steeply rising housing costs the Bay Area experienced starting in 2012 as the country emerged from the Great Recession. As rents began to rise, investors began to purchase older multifamily properties with lower rents (sometimes referred to as “naturally occurring affordable housing”) to raise rents in line with the escalating market – often displacing all or most residents of an entire building at once. These mass displacement events also steepened the cost increases as whole buildings became significantly more expensive overnight. To keep people in their homes at permanently affordable rents, the Preservation program will provide subsidies and low-cost acquisition, rehabilitation and permanent loans for existing properties with affordable rents that are at risk of profit-driven conversions that often force current residents out.

BAHFA will create a funding set-aside target in this investment category to support the development of community-controlled housing, such as cooperatives and limited-equity cooperatives. The goals of investing in community-controlled housing are to support models that reject the treatment of housing as

a commodity primarily designed to increase investor profits and, support instead wealth generation among communities and families that have historically been denied ownership opportunities, thus helping to rectify the consequent deprivation of inter-generational wealth building.

EXPIRING AFFORDABILITY RESTRICTIONS

Thousands of deed-restricted affordable homes across the region have occupancy restrictions attached to their financing agreements to ensure the homes are reserved for low-income households that are set to expire in the near- and medium-term. Without additional public investment, these properties are at risk of converting to market rate – which would displace current residents such as fixed-income seniors, while also taking a step backwards on reducing our affordable housing shortage by “losing” currently affordable units. BAHFA will seek to provide the mortgage financing these developments need to extend affordability for at least 55 additional years.

PHYSICAL PRESERVATION NEEDS

Many older affordable buildings face the loss of units and/or diminished habitability due to age and the limited availability of funding for rehabilitation of existing housing. BAHFA will provide Preservation loans to repair existing affordable buildings, prevent unit loss and ensure high-quality habitability standards are maintained for tenants and the surrounding community.

Additional details about BAHFA's Preservation Program are included in Appendix 3.C.

3.4 Tenant Protections Program

The Act requires BAHFA to devote funding to protect tenants from displacement and prevent homelessness, if constitutional. As defined in the Act, Protections programming includes pre-eviction and eviction legal services; emergency rental assistance; homelessness prevention services; and relocation assistance, among other things. Since the availability of GO bond funding for any form of Protections currently is unknown, pending a proposed constitutional amendment, BAHFA will, as directed in the Act, prioritize other funding it may secure for Protections.

In addition, BAHFA is now and will continue to provide regional leadership, research, advocacy, and technical and financial support to strengthen protection policies aimed at improving housing security for renters.

Additional details about BAHFA's Tenant Protections and Homelessness Prevention Program are included in Appendix 3.D.



Midrise Apartments, San Mateo County
Photo: Karl Nielsen

3.5 Expenditure Planning

BAHFA, counties, and cities receiving funding pursuant to a GO bond measure are required to submit annual expenditure plans. These plans must show how each public agency intends to allocate its funding across the 3Ps in accordance with the rules of the Act.

BAHFA is currently developing its first expenditure plan (Regional Expenditure Plan) and will submit it for the board's approval in 2024, after consultation with the Advisory Committee and ABAG and BAHFA housing committees. BAHFA's Regional Expenditure Plan follows the principles of the Equity

Framework; pursues the goals of the Funding Programs; and incorporates input received from the public and BAHFA's governing boards and committees over the last two years. The Regional Expenditure Plan also acknowledges that market conditions, BAHFA capacity building and program execution are all subject to change over time. Consequently, future expenditure plans submitted annually on July 1st, as required by the Act, offer the opportunity to adjust planning and programming to meet changing market conditions and BAHFA policy priorities.

3.5.1 Objectives of the First Regional Expenditure Plan

As presented to the Advisory Committee, BAHFA Board and Executive Board, BAHFA's first Regional Expenditure Plan objectives include:

- **Serving those with the greatest housing needs**, through (whenever possible):
 - The Production of new PSH and ELI housing.
 - Preventing displacement of low-income households and those at risk of homelessness through Preservation efforts.
- **Support for community-based priorities** through investments in community-controlled housing.
- **Geographic equity** through investments in both historically disinvested communities and exclusionary communities.
- **Operational self-sustainability** through interest and fee income earned on Production and Preservation loans.
- **Provision of regional leadership** through a collaborative approach, with BAHFA working with local jurisdictions to be an additive and complementary financial and technical resource and a unifying regional voice in advocating for more federal and state funding.
- **Scale** achieved through provision of new financial resources, innovative investment approaches and coordinated efforts across the region.

3.5.2 Recommendations for the First Regional Expenditure Plan

BAHFA's first Regional Expenditure Plan components are as follows:

PRODUCTION

- **70% of initial funding allocated to Production**
 - This includes the minimum portion required to be spent on Production as well as all 18% of BAHFA's Flexible Funds
- **Production funding targets for each county based on their "return to source" percentages, i.e., assessed property values.** BAHFA will strive to achieve these targets over the life of the GO bond, not just the first tranche, so that jurisdictions can receive meaningful investments when most needed.
- **Prioritize production of permanent supportive housing (PSH) for unhoused residents and extremely low-income (ELI) households**
 - This housing type requires reliable, ongoing operating subsidies to successfully stabilize households' tenancies.
 - BAHFA anticipates working closely with counties, cities and public housing authorities to create the financing programs necessary to make PSH and ELI housing successful.
- **Seek additive state and federal funding for BAHFA's investments whenever possible, but not at the expense of local governments**
 - BAHFA will work collaboratively with cities and counties, not competitively, especially when affordable housing funds allocated by the state are oversubscribed.
- **Take a flexible approach** that enables BAHFA to respond effectively to changing market conditions, take advantage of new and unexpected opportunities as they arise and pursue the investment goals approved by the BAHFA and Executive Boards to the greatest extent possible.
- **Pursue cost efficiencies to help achieve the goals of the Business Plan, maximize the beneficial impact of expenditures and maximize the number of affordable homes created.**

PRESERVATION

The principal goals for BAHFA's Preservation program are to:

- Prioritize investments in **historically disinvested areas.**
- **Forestall immediate risk of displacement** due to market pressure to increase rents or an expiring affordability covenant.
- **Support community-controlled developments**, especially those that allow wealth building for residents, through a funding target of 20%. (Note: this target does not exclude community-controlled developments from competing for the balance of Preservation funding available.)

LOCAL GOVERNMENT GRANTS

The Act provides that Local Government Grants must be used for housing and housing-related uses. The principal goals for BAHFA's Local Government Grant Program are to:

- **Prioritize investments that benefit the overall community and address local community demands arising from increased affordable housing production.**
- **Result in the greatest beneficial impact regarding number of households served by the investment, directly or indirectly, especially low-income households and households living in historically disinvested communities.**
- **Apply a flexible investment approach that recognizes the diversity of needs across Bay Area communities.**
- **Distribute grants to all nine counties over the life of the bond.**

BAHFA anticipates the adoption of the first Regional Expenditure Plan in the first half of 2024, concurrent with actions by the governing boards to place a GO bond measure on the November 2024 ballot.

3.6 Pilot Programs and Other Opportunities

In advance of the anticipated GO bond measure in November 2024, and to meet its ambitious 3Ps goals, BAHFA has already jumpstarted programs and secured funding to begin addressing the region's housing needs. Multiple BAHFA pilot programs are now underway or set to launch soon. These pilots offer “proof of concept” of the benefits of maintaining an opportunistic and flexible approach, which BAHFA will bake into its long-term planning and implementation efforts. This work also provides a path for BAHFA's continued operations regardless of the outcome of the 2024 ballot measure.

3.6.1 Pilot Programs

In 2021, the Legislature included a \$20 million line-item in the state budget for BAHFA to launch its operations and programs. BAHFA secured additional resources in 2022 and 2023 from state sources and private donations. With these initial resources, BAHFA has launched the following programs:

[Doorway Housing Portal](#) is a regional affordable housing application platform launched in June 2023 that provides housing seekers across the Bay Area a one-stop-shop to search and apply for affordable housing opportunities online.

[Welfare Tax Exemption Preservation Program](#) enables developers to convert existing buildings from market-rate to permanently affordable housing through a long-term deed restriction and nominal financial investment.

[Preservation Pilot Program](#) is an \$18 million acquisition and rehabilitation lending pilot that seeks to prevent displacement by providing financing for conversions of market-rate housing to permanently affordable housing. Funded by the Regional Early Action Planning Grant of 2021 (REAP 2.0) with state monies passed through MTC, this pilot sets the stage for BAHFA's preservation Funding Program.

[Priority Sites Predevelopment Loan Program](#) is a \$28 million program, also funded by REAP 2.0, that will provide predevelopment loans between \$1 million and \$5 million for regionally significant sites that include a high percentage of affordable housing. This pilot will demonstrate the power of partnership between BAHFA, MTC, and ABAG – with BAHFA providing implementation funding for the transit-oriented, climate-friendly growth pattern developed by its sister regional planning agencies.

[Rental Assistance Subsidy Pilot](#) launched in 2023 with \$5 million that provides shallow rent subsidies to extremely low-income seniors and other vulnerable populations at risk of homelessness.

[Affordable housing pipeline studies](#) that annually collect data from public and private sources to quantify the number of affordable developments in predevelopment and the value of funding they require to start construction.

Technical Assistance, including:

- **[SB 35 \(Wiener, 2017\) / SB 423 \(Wiener, 2023\) Toolkit](#)** development to help jurisdiction staff and affordable housing developers – together with California Native American tribes – navigate SB 35 requirements, especially regarding tribal notification practices.
- The **Bay Area Eviction Study**, a study on the causes and characteristics of eviction across the region.
- Regular **regional housing staff convenings** with 3Ps stakeholders in every Bay Area County to discuss pragmatic implementation strategies for delivering more affordable housing.

3.6.2 Potential Areas of Opportunity

BAHFA may wish to pursue alternative programs that are not subject to voter approval or successful fundraising efforts. Several areas with potential for ongoing program development have been identified and include:

Middle-Income Housing Program. An area of growing interest for many Bay Area jurisdictions has been the development and preservation of housing that is affordable to middle-income households earning up to 120% of AMI. While these households typically do not qualify for housing subsidies, they usually cannot afford market-rate housing. BAHFA could assist in the effort to create more affordable middle-income housing by issuing project revenue bonds to finance the projects. BAHFA can also provide the added benefit of a property tax exemption, which helps keep rents affordable, by serving as the building owner. BAHFA's design and implementation of this program would be in collaboration with cities in which such opportunities arose, ensuring that the developments created strong community benefits.

Conduit Bond Issuance. BAHFA is legislatively authorized to issue conduit bonds, on a taxable or tax-exempt basis, on behalf of affordable housing projects. As a conduit bond issuer, BAHFA can earn issuance and ongoing monitoring fees.

Regional Technical Assistance Programs. MTC and ABAG have long championed the expansion and diversification of the region's housing ecosystem through technical assistance programs designed to enhance the capacity of nonprofit developers, service providers, community-based organizations, and local jurisdictions' housing agencies and departments. BAHFA's mandate to provide regional leadership on housing makes it an important partner in supporting and amplifying these programs.



Contra Costa Centre, Contra Costa County
Photo: Karl Nielsen

MTC/ABAG Collaboration

BAHFA will coordinate with MTC and ABAG on housing-related programs, such as the [Transit Oriented Communities \(TOC\) Policy](#) and the [Regional Housing Technical Assistance \(RHTA\) Program](#), among others. MTC’s TOC Policy advances Plan Bay Area 2050 and pursues transit-oriented development goals that encourage transit ridership, reduce vehicle miles traveled and generally help facilitate car-free (and car-light) living. The RHTA Program, established in 2020 with one-time state funding from the Regional Early Action Planning Grant of 2019 (REAP 1.0), has provided cities with tailored technical assistance to complete their most recent Housing Elements and is transitioning to focus on supporting implementation. While BAHFA will not be the lead agency on these efforts, the agencies’ shared staffing model (BAHFA, ABAG and MTC share a combined staff) as well as overlapping governing boards will facilitate a strategic and coordinated regional housing strategy.

