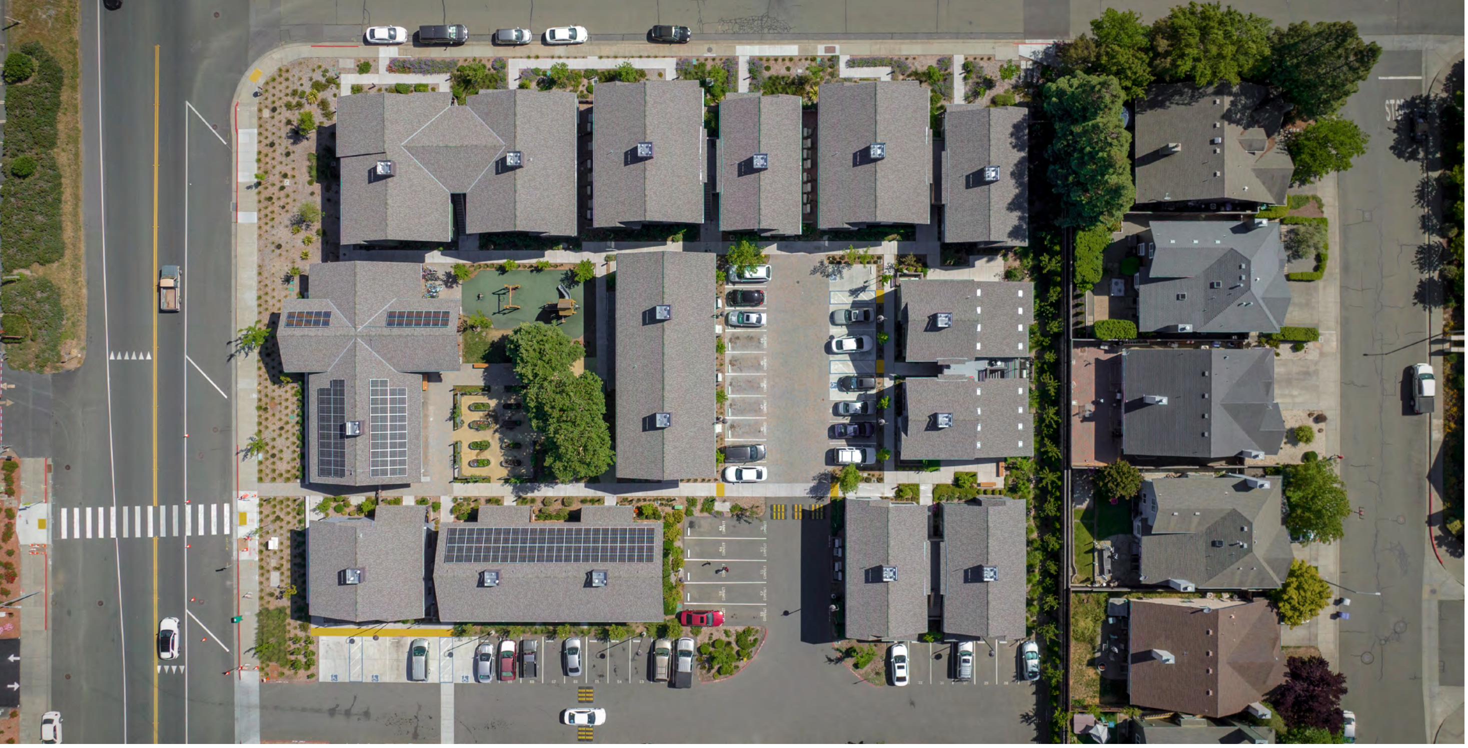


Residential housing, Sonoma County
Photo: Karl Nielsen

Chapter 4:

Operations and Organizational Sustainability Plan

As a newly formed public agency, BAHFA will commence its work following a successful general obligation (GO) bond measure focused on two vital goals: administering its Funding Programs across the region and achieving financial sustainability. This chapter of the Business Plan describes BAHFA's revenue sources, recommended organizational structure and associated financial outcomes along with estimated units produced and preserved.

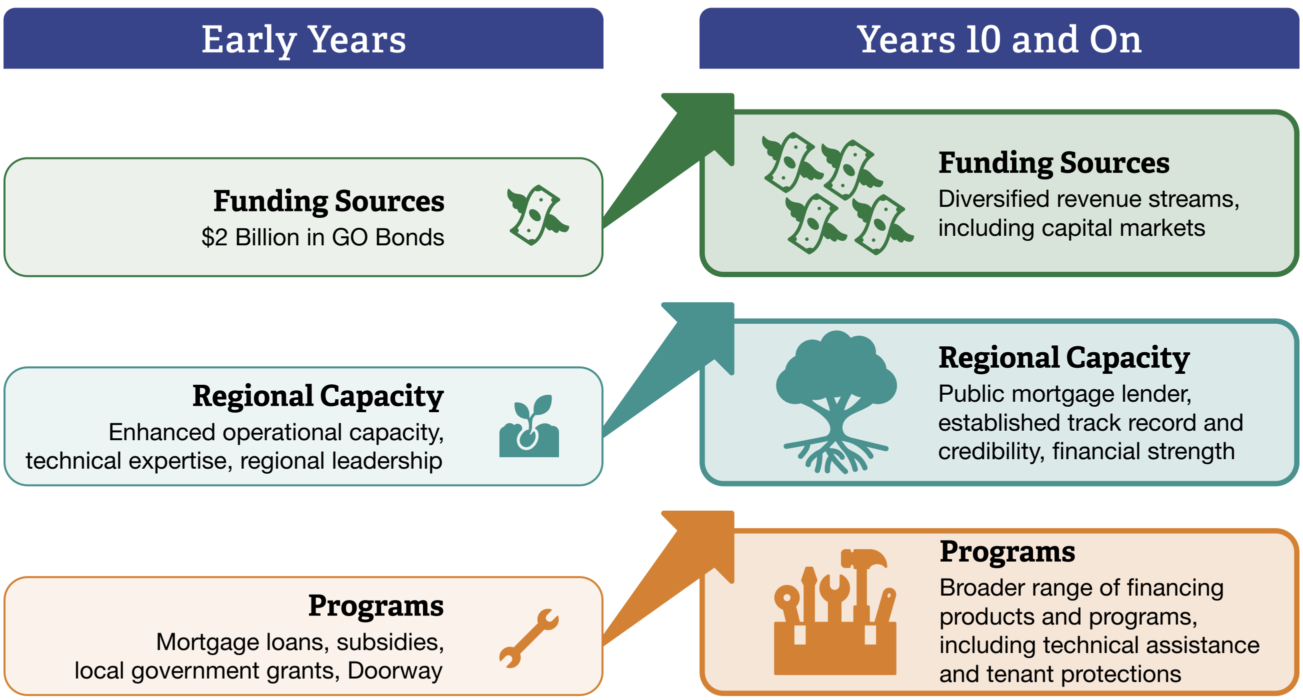
The growth of BAHFA's income, reserves and financial strength over time will allow it to access different types of capital (such as through the capital markets) and launch different types of products and programs, all while maintaining its self-sufficiency through careful planning by staff and stakeholders. This diversification of products and capital sources will create new opportunities for BAHFA to earn revenue and become a stronger organization financially. This beneficial, iterative process will complement other non-revenue generating activities such as tenant protections programming and technical assistance to jurisdictions. The breadth of experience, programs and types of capital that BAHFA is able to support can cement it as a leader in the Bay Area's housing finance ecosystem and a reputable advocate with state and federal policy makers, able to use its role to advance better rules and regulations regarding tax credits, tax-exempt bonds, and programs from the United States Department of Housing and Urban Development (HUD) and Federal Housing Administration (FHA) to enhance access to housing resources for the entire Bay Area.

High-rise apartment, Oakland
Photo: Karl Nielsen

BAHFA's organizational and operating approach benefits from the demonstrated success of the sustainable model used by several successful housing finance agencies around the country. Functioning on the surface like commercial banks or other lenders, these agencies generate revenue from interest and fees on loans for affordable housing projects. But unlike commercial banks, where net income is taken as profit and distributed to executives and shareholders, these agencies reinvest the revenues they receive back into affordable housing as subsidy loans. The [New York City Housing Development Corporation], among others, offers proof of concept of this successful affordable housing financing strategy.

This is a "public lender" model that also will be used by BAHFA, where reinvested income can increase the number of new homes produced and create additional community benefits. The streamlining and simplification created when affordable housing developers can receive both subsidies and debt products from one source helps reduce projects costs, which further increases the resources available for more housing.

Figure 1. BAHFA's Growth



Public Lender Model: The New York Housing Development Corporation

Applying Lessons from New York to Achieve Scale and Self-Sustainability

BAHFA is modeled on the successful New York City Housing Development Corporation (HDC), which was established by the State of New York in 1971. Similar to BAHFA, HDC lends money to build and preserve affordable housing. **HDC is self-funding—meaning it neither requires nor receives any ongoing public financial support—and has grown to become one of the top-ranked financiers of affordable housing in the nation.** HDC's overall assets have dramatically increased over time, rising from $4.7 billion in 2003, to $13 billion in 2014, to $20.6 billion in 2021. HDC has a rental apartment portfolio of approximately 200,000 units.

HDC's scale, financial expertise and active management of its lending income are the fundamental reasons for its profitability. HDC earns revenue from three main sources:

- **"Spread" –** by actively and separately managing its income-earning project loans (assets) and the money it borrows from investors (liabilities), HDC is able to borrow at a lower rate than the interest rate at which it lends; the difference is known as the interest rate "spread" and enables the agency (rather than private banks) to capture the upside of bond financing.
- **Fees –** like other lenders, HDC charges fees for many of its financial products; though fees are modest on a per-project basis, they provide significant income given the volume of loans HDC makes.
- **Interest –** HDC invests its cash income, ensuring that every dollar "works" rather than "sitting" idly.

HDC's growth and profitability have been accelerated by its creative use of housing revenue bonds to raise funds from the private market. In New York, this is structured through the "Multi-Family Housing Revenue Bond Resolution" (also referred to as an "open resolution"). Since 1993, the open resolution permits HDC to raise private capital to fund new loans for housing projects. Each issuance of these project revenue bonds can be structured to handle a large volume of loans, enabling the capture of significant interest rate spread and serving as an engine for ongoing income. Revenue first covers the cost of HDC's operations, then surplus revenue is reinvested into more affordable housing as project subsidies. Since 2003, HDC has reinvested more than $3.4 billion of available revenue (in addition to providing over $27 billion in bond financing and other debt) to build and preserve affordable homes – at no cost to taxpayers.

New York HDC By the Numbers: 2017-2022

- **Bonds Issued:** $1.5 - $2.7 billion annually
- **Revenue Reinvested as Subsidy:** $102 - $325 million annually
- **Units Financed:** 9,600 - 15,000 annually

HDC acts as the equivalent of a specialized public mortgage lender, generating enough revenue to support its own operations as well as to provide a new source of housing subsidies. The self-financing capacities of HDC have evolved over decades; it will take time for BAHFA to reach the same level of impact and sophistication. However, BAHFA has a tool that was not available to HDC: the authority to issue general obligation bonds that can jumpstart BAHFA's lending with $2 - $4 billion of initial capital (20% of a $10 - $20 billion bond).

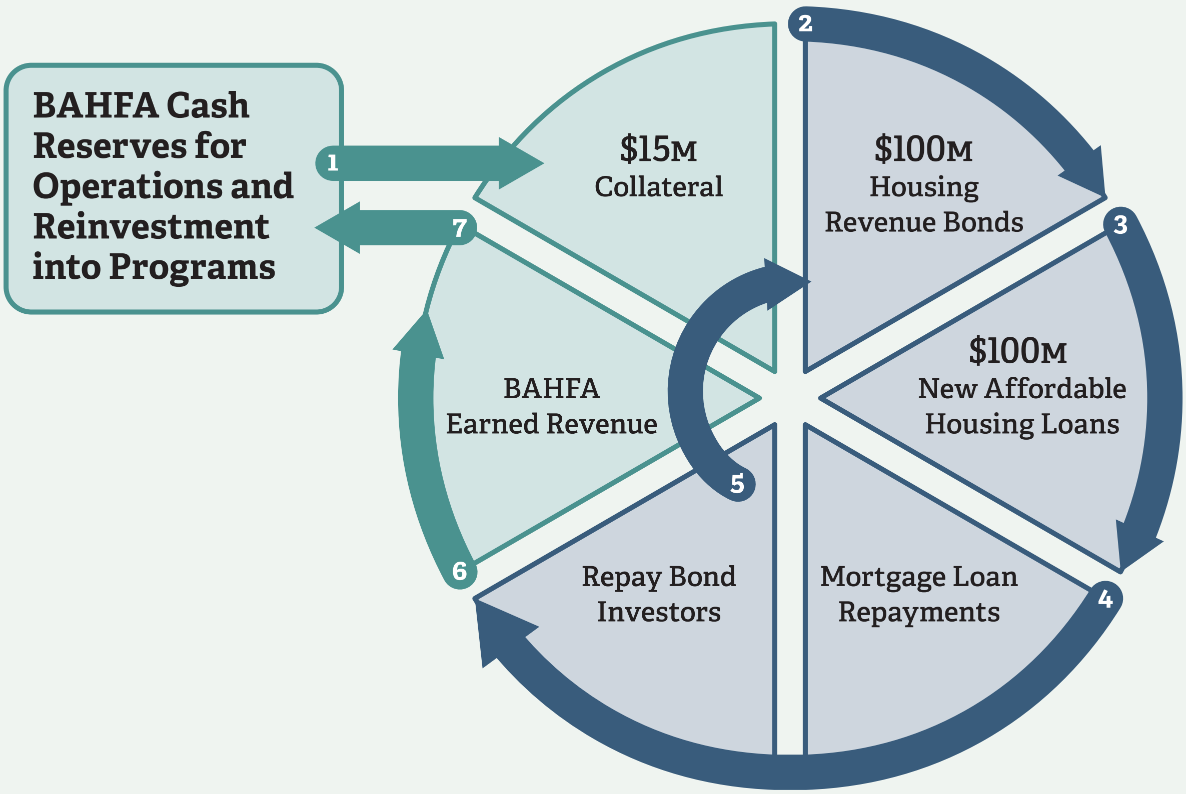
A general obligation bond is a unique opportunity to accelerate BAHFA's pursuit of the HDC public lending model that can, over a 10-15 year period:

- Support a diverse set of projects/programs;
- Generate sufficient revenue to support BAHFA's operations;
- Generate a new source of recurring funding for other programming;
- Support a business model without needing to continually raise funding through voter approved measures.

The New York Model in Action:

Sample Future BAHFA Housing Revenue Bond

Over time, BAHFA will generate earnings from its initial loan programs that use funds from the general obligation bond. This will enable BAHFA to create a cash reserve that can serve as collateral for future housing revenue bond issuances. **The diagram shows an example of how BAHFA could leverage $15 million in cash reserves to make $100 million in new affordable housing loans *and* produce an ongoing revenue stream to support the agency's future operations.**



1. BAHFA sets aside $15 million in cash reserves as collateral
2. BAHFA uses collateral to raise $100 million from investors through sale of housing revenue bonds
3. BAHFA makes $100 million in "must pay" loans to affordable housing construction and preservation projects
4. Borrowers make regular loan payments to BAHFA
5. BAHFA uses revenue to repay investors for the bonds
6. BAHFA retains revenue that exceeds the cost of debt servicing, generated from interest rate "spread" and fees
7. Revenue is used to support BAHFA's long-term organizational sustainability and further reinvest into future affordable housing programs.

4.1 Revenue Sources

BAHFA will have access to various revenue sources that can pay for administrative and operating expenses. Remaining funds generated from these sources after payment of expenses can be used by BAHFA to fund projects and programs in pursuit of its mission to address the Bay Area's housing needs, including by providing additional subsidies. Remaining funds can also be applied to strengthening BAHFA's financial position in conformance with best fiduciary practices and to enable efficient access to the capital markets in support of future lending activities.

The Business Plan anticipates that BAHFA's principal revenue sources will shift over time. In its early years, BAHFA will rely heavily on its administrative cost allowance from GO bond proceeds. Over time, BAHFA will become self-sustaining by funding its costs from revenue earned from its lending and financing activities.

BAHFA's anticipated revenue sources include:

PRINCIPAL REVENUE SOURCES

- **Allowable Administrative Costs.** The Act allows up to 5% of GO bond proceeds to be used for administrative costs necessary to implement the bond. Assuming a $10 billion GO bond, BAHFA would receive $2 billion, of which up to 5% – $100 million – would be available to cover BAHFA's administrative costs. Local jurisdictions would receive $8 billion, of which $400 million can be used for their administrative expenses. It is projected that the GO bonds would be drawn, and the corresponding administrative fund would be received, in installments over an estimated 10- to 15-year period. BAHFA and the counties and direct allocation cities do not have to draw on bonds in lockstep; the cadence and amount of each bond issuance may vary based on each jurisdiction's needs and how quickly each can deploy funds to support the 3Ps.
- **Lending Revenue from Funding Programs.** How BAHFA structures its Funding Programs will set the stage for its future success. Production and preservation loans will generate fees and interest that will support BAHFA, even after the bond proceeds are depleted. These revenues can be used flexibly for costs and investments incurred by BAHFA. Distinct from payments of fees and interest, repayments of principal on all GO bond-funded loans must be redeployed into new loans and subsidies that conform with statutory requirements for bond funding.

OTHER REVENUE SOURCES

- **Fees from Moderate Income Acquisitions.** BAHFA may issue project revenue bonds to acquire housing for moderate income households with incomes up to 120% of AMI. On these transactions, BAHFA may earn revenue from program management, bond issuance, and ongoing monitoring fees.
- **Fees from Conduit Bond Issuance.** In addition to bonds BAHFA may issue for the acquisition of moderate-income housing, BAHFA also may issue conduit bonds for other types of projects and earn issuance and ongoing monitoring fees.
- **Interim Reinvestment Income:** Excess revenue, or "cash on hand" that is not immediately redeployed into additional loans may be reinvested, on an interim basis, in permitted financial instruments. Permitted investments will be outlined in an approved investment policy. While safety and liquidity of funds will be the primary consideration, these investments will generate a rate of return. Example investment types may include U.S. Treasuries, bank certificates of deposit, commercial paper, and other instruments commonly included in the investment portfolio of California's public agencies.
- **Grants and Fundraising:** BAHFA must remain opportunistic and engage with federal, state, corporate and philanthropic funders regularly to seek additional funding opportunities when available, whether for programming or administrative costs. As noted earlier, BAHFA was launched from a $20 million appropriation from the state budget, which is expected to fund four years of business planning and staffing to launch pilot projects. BAHFA also successfully secured $18 million and $28 million of REAP 2.0 funding for Preservation and Production, respectively, as a passthrough of a portion of a formula grant that MTC received from HCD in 2023.

Affordable housing construction site, San Francisco
Photo: Joey Kotfica

4.2 Organization

BAHFA's organizational model is driven by implementation needs for the Funding Programs. This model anticipates that BAHFA will continue to leverage the existing staffing capacity at MTC (whose staff jointly support BAHFA and ABAG) while additional long-term staff focused on BAHFA work will be hired as needed and as ongoing resources become available. BAHFA likely will retain specialized consultants and third-party service providers to augment in-house staff.

A flexible organizational approach will be necessary. The assumptions used in BAHFA's business planning are based on staff and stakeholders' current understanding and research of project costs and market dynamics throughout the Bay Area. These assumptions are oriented around a specific point in time and are certain to change. Significant unknowns include:

- **The size and pace of GO bond issuances.** The business planning process tested a modestly-paced GO bond issuance scenario where BAHFA deploys its proceeds into Funding Programs from five equally-sized bond issuances totaling $2 billion over a 15-year period. It also considered an accelerated scenario with three equal issuances over 10 years. In either scenario, BAHFA's capacity increases rapidly to accommodate organizational needs; the magnitude of this increase would be even greater if additional GO bonds were issued or were issued more rapidly.
- **Market conditions.** The Funding Programs reflect current regional housing needs and are eligible uses of funds under BAHFA's legislative framework. The types of loan products and their associated terms will need to be monitored over time and periodically revisited, based on factors including construction costs, household income increases, interest rate environments and changes in other market factors. These factors affect: 1) the mix of loans and subsidies that affordable housing needs to be successful across the region; 2) the interest rates and fees BAHFA can charge on its loans while remaining competitive with other lenders; and 3) numerous other aspects of the Funding Programs and the agency's operating model.
- **The availability of leveraged funding sources for Production investments.** A substantial increase in the supply of these sources, such as low-income housing tax credits and tax-exempt private activity bonds, could create expanded opportunities for BAHFA to rely on these sources in its Funding Programs, and correspondingly impact BAHFA's approach to operating and delivering those programs.
- **The evolving nature of MTC/ABAG's and BAHFA's shared staffing model.** As contemplated by the Act, BAHFA currently uses MTC staffing, with a few staff members dedicated solely to BAHFA's work, and the rest of BAHFA's needs addressed by MTC in other departments. The operational framework presented in this Business Plan continues this model, with some increased staffing capacity supported by the bond issuance. As BAHFA's lending programs evolve in pursuit of BAHFA's long-term vision, it may require more dedicated staffing to most effectively and efficiently administer its new programs.
- **Loan portfolio performance.** Loans BAHFA makes to specific affordable housing projects may or may not perform as expected. The performance of loans within BAHFA's portfolio will affect BAHFA's revenues as well as the asset management and other organizational capacities it will need.

The ability to periodically assess and respond to these factors will help to ensure that BAHFA meets its goals of being financially self-sufficient while still providing needed products and services across the region.

4.2.1 Staffing Categories

The individuals supporting BAHFA early in its existence will be critical to create a strong organizational framework to deploy and administer the Funding Program, as well as to grow the expertise and organizational capacity that will enable these programs and the agency's regional leadership to expand over time.

Generally, staffing by MTC for BAHFA will fall within three categories:

- **BAHFA Leadership:** BAHFA's leadership will report directly to BAHFA/ABAG executive leadership and work very closely with members of the BAHFA and Executive Boards.
- **BAHFA Programmatic Staff:** BAHFA will need to hire new and retain existing staff to administer its real estate lending, asset management, Doorway, and tenant-protection business functions. As the agency matures, these hires will develop and implement administrative systems and procedures internal to BAHFA.
- **MTC Department Support:** Certain functional areas for BAHFA staffing and capacity are likely to remain dispersed across MTC sections, while others may migrate to BAHFA as dedicated programmatic staff over time. It is expected that BAHFA will continue to rely on MTC for human resources, technology services, legislation and public affairs, and contracting. Core business function areas such as legal, finance and treasury may migrate from MTC to BAHFA-dedicated staff over time as BAHFA builds upon these departments with expertise related to BAHFA's housing-related activities – though as noted above, additional study would be required to evaluate whether and when this should occur.

The balance between hiring additional staff to increase capacity and managing costs in consideration of available revenue will need to be actively managed. To maintain the optimal balance, BAHFA may outsource to third-party service providers and consultants short-term, one-time, or "surge" capacity needs, as could occur if the schedule of GO bond issuances creates uneven agency funding availability from year to year.

4.2.2 Roles and Responsibilities

The following **Table 1** describes the capacities and business functions that BAHFA will require, either through staff or contracting with third-party service providers and consultants.

Table 1. Potential BAHFA Staff Categories and Responsibilities

Functions	Description	Location and Strategy for Phasing
Leadership and Management	• Focus on organizational mission, alignment with policy objectives, and financial sustainability • Strategic business planning and pursuit of new opportunities and programs at the federal/state/local levels • Represents BAHFA's interests to related and partner organizations (e.g., MTC/ABAG) • Annual review of BAHFA and county expenditure plans in conjunction with BAHFA/ABAG finance staff and governing boards	• Capacities provided in-house, reporting to MTC Executive Team • Supporting leadership (e.g., deputy) may be added over time
Real Estate Lending: Production and Preservation	• Originations: develop Notices of Funding Availability, score projects, develop/issue term sheets to selected projects, collaboration with local jurisdiction housing staff • Underwriting: perform financial/credit analysis on potential projects, produce credit memos, utilize internal term sheets as guidelines • Closings: loan closings and coordination with internal parties and external lenders/investors • Construction monitoring • Project close-outs • Provision of underwriting assistance to jurisdictions that request it, including creation of template budgets, checklists, and loan documents	• Capacities provided in-house; during peak periods, contracted 3rd party underwriters may be needed • Staff includes lending leadership, supported by lending staff, loan servicers, and construction engineer(s)
Asset and Risk Management	• Fiscal management of loan repayments and asset investments (e.g., processing construction draws, coordination with accounting and finance staff) • Regulatory and asset compliance monitoring and reporting (e.g., monitoring the ongoing physical condition of projects, monitoring the fiscal performance of the projects and their respective borrowers, collect required reporting related to the Equity Framework)	• Some capacities including asset management leadership provided in-house; supported by 3rd party asset management service providers

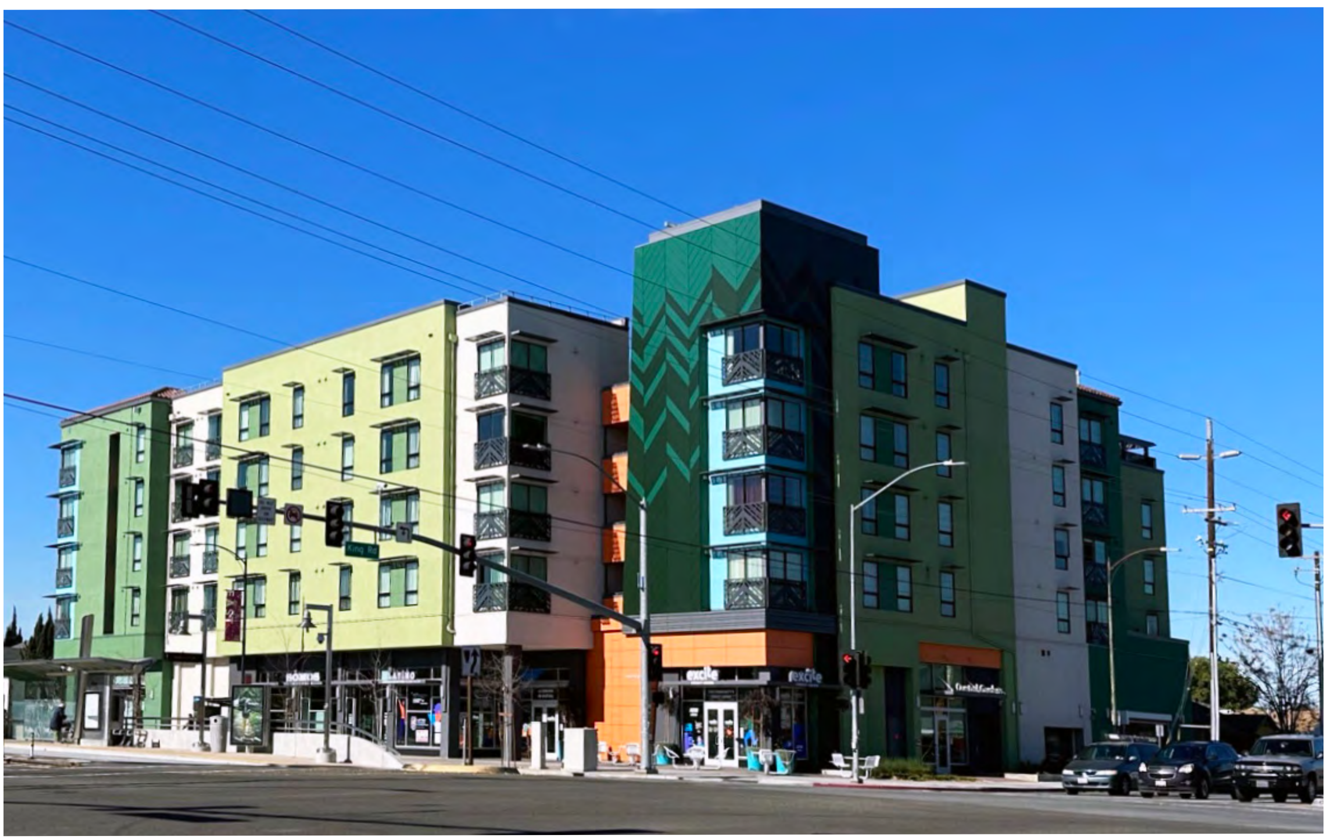
Functions	Description	Location and Strategy for Phasing
Finance and Treasury	• Implement key financial systems during start-up • Management of GO bond issuances, cash flow, and debt repayments • Assist management staff to track organizational financial sustainability • Management of BAHFA's operating budget • Oversee authority financials, cash management and reserve investments	• At the outset, finance leadership will be leveraged from MTC, supported by loan servicers and accounting staff
Accounting, Loan Servicing, and Budgeting	• Disburse loan funds (construction draws, subsidy loans, or permanent loans) in coordination with asset management and real estate lending staff • Project accounting and progress reporting for loan portfolio • Ongoing income and expense management • Coordinate with fund auditors on annual audits	• Capacities housed within MTC or provided through dedicated staff
General Counsel	• Oversee BAHFA's legal affairs: real estate lending, bond issuances, interpretation of authorizing legislation, regulatory compliance and other corporate affairs • Coordinate with outside counsel as needed	• Capacity housed within MTC's Office of General Counsel, but dedicated to housing-related legal matters
Outside Counsel	• Drafting template loan agreements at start-up • Transaction documentation (using loan templates) for Production/Preservation loans • Represent BAHFA on bond issuances	• Third-party counsel to be engaged as needed to support specific projects or on bond issuances
Protections	• Tenant protections program management	• Capacities provided in-house
Doorway	• Develop and manage regional housing application online platform	• Capacities provided in-house; contracted 3rd parties, such as software engineers, may be used for technical development and maintenance
Supporting MTC/ABAG Departments	• Administration and Human Development • Technology Services, employee IT support • Facilities and Contract Services • Legislation and Public Affairs • Regional Planning Program	• Capacities leveraged from MTC/ABAG as needed

4.3 BAHFA's Projected Net Income

Modeling of BAHFA's income and expenses was conducted for both "modestly-paced" and "fast-paced" GO bond issuance scenarios, with varying mixes of Production and Preservation project typologies consistent with the Funding Programs. The modeling produced the following estimates:

- BAHFA may accrue **$150 million to $165 million of cumulative net income** over the first 10-15 years, which can be used to support operations, programs and longer-term capital markets endeavors.
- After fully expending GO bond funds in Years 10-15, the agency may generate **annual net income of approximately $10 million to $17 million**.

These scenarios depend on assumptions related to the projects funded within each of the Funding Programs, the revenue BAHFA can generate as a result and the associated expenses for the programs. Each scenario was tested for its ability to withstand periods of stress and poor market performance. ***Under a wide range of scenarios, BAHFA can achieve financial self-sufficiency while still growing as an agency to help support its ability to secure new capital resources and provide new investments and subsidies.***



Affordable housing apartment building, Santa Clara County
Photo: Courtesy of Resources for Community Development

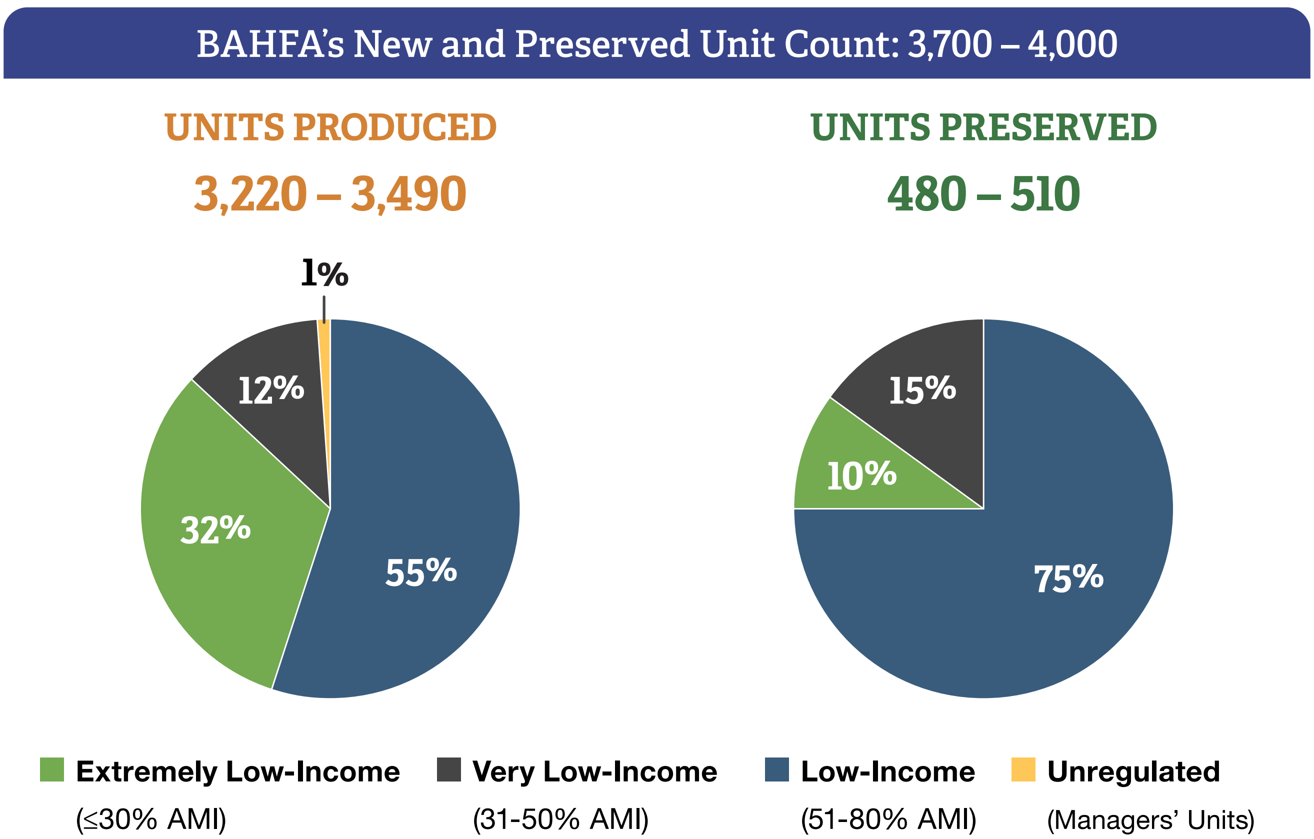
4.4 Units Produced and Preserved

A primary goal of BAHFA's financial modeling is to estimate a range for the number of units BAHFA's funding can help to produce or preserve. As with other planning estimates, these estimates are highly variable and depend on factors such as market conditions. Importantly, the pace at which BAHFA receives GO bond proceeds and the pace at which it disburses those funds, as well as the project costs and need for additional funding, will affect how many units can be built and preserved. Units financed by BAHFA may also be funded in part, or not at all, from funding counties and cities would receive directly from BAHFA's anticipated GO bond measure.

Assuming a $10 billion GO bond, BAHFA's 20% share of the funds is expected to produce and preserve 3,700 to 4,000 housing units. This assumes that approximately 45% of BAHFA's funding for new construction projects supports extremely low-income ELI and very low-income (VLI) households, matching the Regional Housing Needs Allocation target of 45% for ELI and VLI housing as a share of housing at or below market rates.

When combined with the 80% of GO bond funds that will be administered by counties and direct allocation cities, the estimated total unit count expands to 35,000 to 40,000. If the regional GO bond were sized at $20 billion, these numbers would double. Additional detail related to the allocation of units produced and preserved with BAHFA's 20% share of bond funds is provided below.

Figure 2. BAHFA's Projected New and Preserved Homes



4.5 Policies, Procedures, and Reporting

BAHFA's ability to disburse its capital to support projects across the Bay Area, as well as to maintain an efficient and effective operating structure, relies on strong internal policies and procedures for administering the Funding Programs and other activities. Streamlined internal guidelines and processes will also help to minimize costs over time. BAHFA will need to clearly define its role, its offerings and its criteria with respect to its programs, and will need to have internal standards and mechanisms to identify, prioritize and interact with transaction counterparties and other stakeholders.

4.5.1 Pipeline Development and Applicant Solicitation Strategy

BAHFA's ability to build a strong pipeline of projects to finance will depend on its relationships with stakeholders, developers and lenders across the region. Clear and flexible criteria for how funding applications are evaluated will also be important. BAHFA will need to clearly communicate its funding approach so potential borrowers, lending partners and counterparties know how and why they should do business with BAHFA.

For each Funding Program as well as any other future programs that BAHFA may launch, prospective borrowers and service providers (as in the case of BAHFA's Protections and Homelessness Prevention programming) will be solicited via Notices of Funding Availability ("NOFAs") or Requests for Proposals or Qualifications ("RFPs" or "RFQs") or similar mechanisms.

These solicitation documents will be specifically tailored to each program and will request that applicants submit proposals or responses that describe how their projects or organizations meet underwriting guidelines or criteria described in the NOFA, RFP, or RFQ, and how the project or organization will help BAHFA meet its programmatic goals and equity objectives. The solicitation will describe the type of funding BAHFA is making available, requirements associated with the funding, and other criteria or priorities. The solicitation also will list any supporting documentation that a developer or organization should provide alongside their application or proposal. Broad outreach and strong partnerships will be essential to the success of BAHFA's NOFA and RFP/RFQ issuances. The types of local partners, and their ability to contribute to BAHFA's pipeline development process, are further described in **Table 2**.

Table 2. Anticipated Pipeline Development Partners

	Local Housing Agencies and Departments	Affordable Housing Developers and Service Providers	Financial Institutions and Intermediaries
Description	Staff at local housing agencies and departments (cities and counties) with knowledge of their own financing programs, as well as BAHFA's.	Affordable housing (production and preservation) developers with a pipeline of projects in need of funding that aligns with the Funding Programs. Service providers are those that support tenant protection measures and homelessness prevention.	Banks, community development financial institutions (CDFIs), and other lenders providing loan products to support housing developers and service providers.
Pipeline Development Strategy	Local housing, homelessness prevention staff, and housing authorities are best positioned to know and respond to their constituents' needs. For projects or programs where local agencies can provide resources such as rental subsidies, BAHFA may partner and provide loans directly or through a solicitation process. Local agencies may also direct their resources towards some projects, while referring other projects that meet scoring criteria to BAHFA.	Developers and services providers are likely to be the principal applicants for most BAHFA funding opportunities. These organizations will be the entities assembling financing to move their projects forward, and rely on various sources of upfront, construction and permanent financing to make their projects financially feasible.	Banks and CDFIs commonly provide short-term or interim financing that requires subsequent take-out by construction or permanent-phase loans and subsidies. By maintaining close relationships with other funders, BAHFA can coordinate on fully meeting projects' capital funding needs.

4.5.2 Underwriting Guidelines and Project Term Sheets

Underwriting guidelines outline the general terms and conditions expected to apply to all loans under a specific program. They provide parameters for borrowers to structure production or preservation projects in a manner that meets both BAHFA's financial and equity requirements, and are foundational for BAHFA's staff, consultants, and governing boards to be able to underwrite and manage lending risk.

The parameters set forth in BAHFA's underwriting guidelines should be clear and prudent, but also provide for potential exceptions to specific criteria for especially high-impact, policy-aligned projects. All guidelines should be revisited periodically and updated based on program performance and market needs. It is recommended that BAHFA establish underwriting guidelines that address the areas described below in **Table 3**.

Table 3. Underwriting Guideline Components

Financing Terms	Loan terms for all BAHFA lending products such as term, maximum loan amounts, interest rates, fees, security, repayment provisions
Project Eligibility	Parameters for projects eligible to apply for BAHFA funding such as household income levels, Funding Program category, achievement of Equity Objectives
Sponsor Eligibility	Parameters for project sponsors/developers eligible to apply for BAHFA funding
Borrower Underwriting Assumptions	Requirements for borrowers' underwriting proformas such as vacancy allowance, debt coverage ratios, operating/replacement/other reserve requirements, developer fees, and surplus cash flow sharing
Ongoing Project Requirements	Ongoing project reporting or certification requirements related to unit affordability, leasing, financial reporting, equity metrics, or other requirements

Once a project is selected to receive a loan, a non-binding commitment is issued to the project borrower. A lender's commitment to a borrower typically is provided in the form of a "term sheet" that outlines the basic terms and conditions of the loan for a specific project, prior to entering into binding loan agreements.

4.5.3 Underwriting

Using BAHFA's established underwriting guidelines, once a project is offered a preliminary loan commitment, BAHFA staff or its contracted consultants will perform quantitative and qualitative analysis on potential projects, addressing risks and mitigants, as summarized in an underwriting memo with the following components.

Table 4. Underwriting Memo Components

Financial	• Assessment of the borrower's ability to complete construction or rehabilitation of the proposed project, including review of budgeted costs, contingencies, and developer and contractor capacity • Assessment of the borrower's ability to repay any project loans, including analysis of the sufficiency of project income and expense cash flows, debt service coverage ratios, interest reserves, and borrower financials • Downside risk analysis relating to identified areas of risk, and potential mitigants
Legal and Reputational	• Legal due diligence and risk assessment of borrower, projects, and service providers • "Know your customer" analysis; identification of potential reputational risks • Jurisdictional support from city or county
Technical	• Engineering assessment of construction or rehabilitation feasibility, reasonableness of cost estimates, construction risks and overall project management risks • Contractor due diligence, and service provider diligence as applicable
Equity Impact	• Evaluation of how the project achieves BAHFA's programmatic goals and Equity Objectives

4.5.4 Loan Approvals

BAHFA is likely to follow MTC/ABAG's existing framework for securing approval of loans, subsidies and grants it makes, as follows:

FULL APPROVALS PROCESS

- Staff develop project selection criteria, such as funding guidelines, NOFAs, RFP/RFQs, Requests for Letters of Interest, etc.
  - Staff requests a recommendation of approval from the relevant Committees (e.g., the BAHFA Advisory and Oversight Committees).
  - The Board acts on the Committees' recommendations and adopts the policy (subject to any adjustments made by the Board).
- Staff issues the relevant solicitation document approved by the Board, evaluates proposals, and selects those that meet the published project criteria and rank highest according to published criteria.
- Staff returns for approval of the selected developers/awardees to the relevant Committee and Board.

DELEGATED APPROVAL PROCESS

- After approval of the project selection criteria documentation, the Board may also delegate final approval authority to the MTC Executive Director (or their designee) for the purpose of expediting the approvals process.

Fairmont Navigation Center, San Leandro
Photo: Mark Jones

4.5.5 Ongoing Risk and Asset Management

Once a project receives BAHFA funding and through the term of the funding, BAHFA will require regular borrower reporting as part of its ongoing asset and risk management functions. At minimum, reporting should include:

- Monthly construction or rehabilitation status reports
- Annual borrower and project financial statements
- Equity metric reports

BAHFA staff will monitor and report on all loans, individually and portfolio-wide, to keep BAHFA leadership apprised of loan performance and any areas of concern. In cases where a loan or a program shows significant credit weakness, deterioration or defaults, staff will develop, recommend and conduct work-out strategies to protect BAHFA's financial, programmatic and equity interests in the transaction.

Affordable housing apartments, Contra Costa County
Photo: Courtesy of Resources for Community Development

4.5.6 Coordination with Local Jurisdictions

For BAHFA's programs to drive the regional change stakeholders have set out to accomplish, the importance of strong coordination and support between BAHFA and local jurisdictions cannot be overstated. Cities and counties have their own existing, internal funding resources and will receive 80% of any funds raised pursuant to a BAHFA GO bond.

Local governments also have the best sense of the affordable housing needs and priorities within their local markets. Cities and counties are well-positioned to strategically combine BAHFA as a technical assistance provider with their own resources in a way that expands their local pipeline of affordable housing projects.

Capacity at local housing departments and housing agencies is not equal across the Bay Area. Certain cities and counties have access to more resources and have higher levels of staffing expertise than others. This results in a disparate approach to tackling housing affordability and instability across the region, with greater activity concentrated in the jurisdictions that have greatest access to resources and expertise. Lower-capacity agencies and departments may not be able to push as many high-impact projects forward, and may also slow the adoption of best practices and methodologies across the region.

If a BAHFA GO bond measure is successful, the ability for these dollars to flow into transformative projects across the region will rely on both BAHFA and local housing department and agency staff having the capacity and expertise to deploy these funds. With an unequal distribution of funding and capacity across the region, BAHFA has the ability and opportunity to act as a regional clearinghouse and provider of technical assistance. BAHFA already has begun regular convenings of local housing department staff to share best practices and keep other housing departments aware of new housing projects in the pipeline in their jurisdictions. BAHFA intends to continue holding regular convenings, particularly if the voters approve an influx of funding from a GO bond. These convenings also give BAHFA the opportunity to share updates about BAHFA's funding and pilot programs with representatives of local jurisdictions.

Stakeholders indicate another major hurdle in completing Bay Area housing projects is the disparity between funding documents and requirements across jurisdictions, the state, and federal sources—and the time and expense it takes to develop these internally. BAHFA will make templates for its loan agreements and supporting documentation (e.g., regulatory agreements, subordination agreements, pro formas) available, so jurisdictions that may not have the resources or time to develop these on their own can refer to samples provided by BAHFA.

Over time, BAHFA intends to build its own internal capacity for supporting jurisdictions in their underwriting of new projects and asset management of existing portfolio projects. This may mean staffing up internally so that BAHFA is able to support jurisdictions that do not have their own dedicated underwriting or asset management staff, or identifying a pool of consultants and third-party support that jurisdictions could use.

4.5.7 Communications and Reporting

BAHFA will regularly provide financial and programmatic reporting to its governing boards. To maximize transparency, these reports will be made available to the public.

Pursuant to the requirements of the Act, BAHFA also will:

- Provide annual audits and financial reports;
- Hold at least one public meeting regarding relevant plans or proposals that BAHFA is considering implementing;
- Submit an annual Regional Expenditure Plan to its governing boards outlining BAHFA's use and priorities for spending GO bond proceeds; for subsequent expenditure plans submitted to the boards, BAHFA will report on the allocations and expenditures to date of projects and programs funded by BAHFA, as well as its progress in meeting 3P funding requirements; and
- Submit an annual report to the State Legislature as required by state law outlining BAHFA's use and allocations of its funds and of funds controlled by counties and cities receiving allocations of GO bond proceeds, including description of projects that have received funding, their status, and associated household income levels.

The Equity Framework outlines additional reporting recommendations to convey to the public and stakeholders BAHFA's progress in meeting its Equity Objectives. BAHFA may choose to consolidate this reporting into its annual expenditure report, which is reviewed and approved by its advisory and governing committees and boards, or may produce a separate, standalone report that specifically addresses progress in relation to the Equity Framework. Strategies BAHFA will use for equity reporting, as well as the suggestions for ways in which BAHFA can collect, analyze, and report on data, are further discussed in the "Accountability and Implementation Strategies" section of Appendix 1: Equity Framework.