



OBSTACLES AND OPPORTUNITIES AT THE INTERSECTION OF PUBLIC FINANCE AND THE HOUSING CRISIS



Introduction: Mapping the Intersection of California's Housing Crisis and Public Finance

Gabe Petek, Legislative Analyst, California Legislative Analyst's Office

California's Housing Challenges in Context



Presented to:

**California Debt and Investment Advisory
Commission (CDIAC)**

Gabe Petek, Legislative Analyst
Legislative Analyst's Office

Introduction

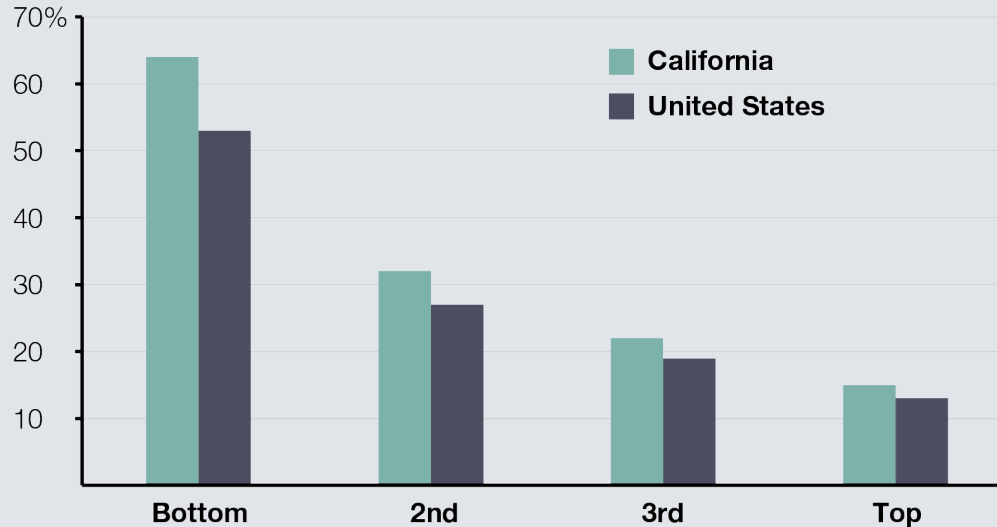
- **Many Households Have Difficulty Affording Housing in California**
- **Why Is Housing More Expensive in California?**
- **Housing Is Implemented and Planned at Local Level**
- **Recent Major State Actions**
- **Closing Thoughts on California's Housing Challenges**

Many Households Have Difficulty Affording Housing in California

Many Households Have Difficulty Affording Housing in California

Californians Spend More on Housing Than the Rest of the Nation

Median Share of Income Spent on Rent by Income Quartile (2019)



Many Households Have Difficulty Affording Housing In California

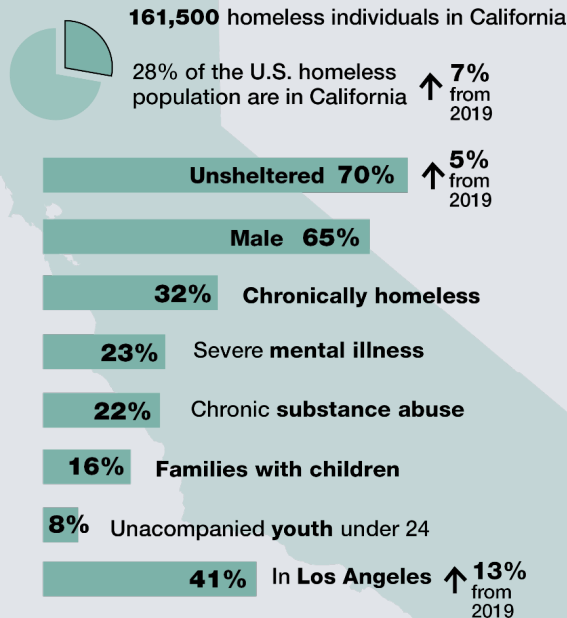
(Continued)

- *High Housing Costs Increase State Poverty Rate.*
- *Low-Income Households Face Highest Rent Burden.*
- *Housing Affordability Challenges Even Middle-Income Households.*
- *Need for Low-Income Housing Assistance Outstrips Resources.*

Many Households Have Difficulty Affording Housing in California

(Continued)

California's Homeless Population



Housing Affordability Affects Homelessness.

Rising housing costs that have exceeded growth, particularly for low-income households, put Californians at risk for housing instability and homelessness.

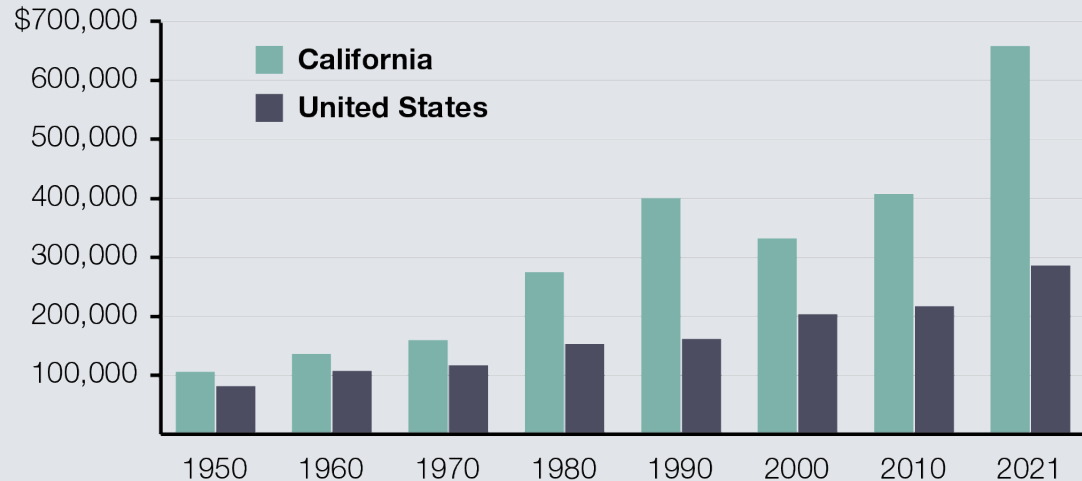
Figure based on the U.S. Department of Housing and Urban Development's January 2020 point-in-time homelessness count, before the onset of the coronavirus disease 2019.

Why Is Housing More Expensive in California?

Why Is Housing More Expensive in California?

Building Less Housing Than People Demand Drives High Housing Costs

Inflation Adjusted Home Prices in 2021 Dollars



Why Is Housing More Expensive in California?

(Continued)

Building Less Housing Than People Demand Drives High Housing Costs

- *Housing Production Does Not Meet Demand*
- *Estimating California's Housing Shortfall*
- *Spillover of Demand to Live on the Coast Affects Housing Costs in Inland California*

Why Is Housing More Expensive in California?

(Continued)

High Land Costs and Low-Density Development Make Housing Expensive

- *Land Costs Are High on the California Coast.*
- *High Land Costs Can Be Offset Through Dense Development.*
- *Little Increase in Housing Densities in Coastal Metros.*

Why Is Housing More Expensive in California?

(Continued)

Building Costs Increase Housing Costs

- ***Building Costs Are Higher in California.*** Aside from the cost of land, three factors determine developers' cost to build housing:

- (1) labor.
- (2) materials.
- (3) government fees.

All three of these components are higher in California than in the rest of the country.

- ***Effect of Building Costs on Prices and Rents Varies Across Regions of the State.***

Housing Is Implemented and Planned at Local Level

Housing Is Implemented and Planned at Local Level

Establishing and Meeting Housing Needs

- ***Regional Housing Needs Allocation (RHNA) Process Defines Each Community's Fair Share of Housing.*** The state requires cities and counties to carry out certain planning exercises in an attempt to ensure they accommodate needed home building. Each community's fair share of housing is determined through a three-step process known as RHNA.
- ***Zoning Key to Meeting Housing Needs.*** To carry out the policy goals in their general plans and housing elements, cities and counties enact zoning ordinances to define each property's allowable use and form.

Housing Is Implemented and Planned at Local Level

(Continued)

Limitations of the Housing Element Process

- *Communities Often Reluctant to Plan for Housing.*
- *Demographic Projections Underestimate Housing Demand.*
- *Time Period Covered by Housing Goals Is Too Short.*
- *Identifying Ideal Sites for Housing Is Difficult.*
- *There Are Practical Limits to State Oversight.*
- *Affordable Housing Funding Insufficient for Locals to Meet Housing Goals.*

Recent Major State Actions

Recent Major State Actions

Recent Key Legislative Actions

- ***Shifting State-Local Relationship.*** Historically, local governments set their own policies that aim to address housing and homelessness in their communities. However, as the state's housing and homelessness challenges have become more acute, the state has taken a much larger role in housing and homelessness.
- ***Legislature Has Adopted Major Housing Legislation.*** In 2017, the Legislature passed a package of 15 bills aimed at addressing the high cost of housing in California.

Recent Major State Actions

(Continued)

<i>(In Millions)</i>			
Program	Amount	Funding Type	State Administrator
2018-19			
No Place Like Home	\$2,000	One-time	HCD
HEAP	500	One-time	HCFC
2019-20			
HHAPP	\$650	One-time	HCFC
Mixed-Income Loan Program	500	One-time	CalHFA
Affordable Housing Tax Credits	500	One-time	CTCAC
Infill Infrastructure Grant Program	300	One-time	HCD
Planning Grants to Local Governments	250	One-time	HCD
COVID-19 Emergency Homelessness Funding	100	One-time	HCFC
Project Roomkey	50	One-time	DSS
2020-21			
Homekey Program	\$800	One-time	HCD
Affordable Housing Tax Credits	500	One-time	CTCAC
National Mortgage Settlement	300	One-time	CalHFA
HHAPP	300	One-time	HCFC
Project Roomkey	62	One-time	DSS
2021-22			
HHAPP	\$1,000	Temporary	HCFC
Affordable Housing Backlog	1,750	One-time	HCD
Homekey Acquisitions	1,450	Temporary	HCD
Regional Planning Grants, Housing Infrastructure	600	One-time	HCD
Infill Infrastructure Grant Program	534	One-time	HCD
Foreclosure Prevention and Preservation	500	One-time	HCD
Affordable Housing Tax Credits	500	One-time	CTCAC
Affordable Housing Preservation	300	One-time	HCD
Project Roomkey	150	One-time	DSS
Homebuyer Assistance, Economic Impact Relief	100	One-time	HCD
Accessory Dwelling Unit Financing Program	81	One-time	HCD

Recent Major State Actions

(Continued)

Voter Approved Ballot Measures

- ***Veteran and Affordable Housing Bond Act.*** In November 2018, voters approved Proposition 1, a \$4 billion bond that provides \$1.5 billion for low-income multifamily housing, \$1 billion to veterans' housing assistance, and the remainder for various other housing infrastructure programs.
- ***No Place Like Home (NPLH).*** In November 2018, voters approved Proposition 2, which authorizes the use of funds from the Mental Health Services Act (Proposition 63 of 2004), which established a personal income tax surcharge on high-income earners, for NPLH. The Legislature created NPLH in 2016 to build and rehabilitate permanent supportive housing for those with mental illness who are homeless or at-risk of becoming homeless. The measure allowed for the issuance of \$2 billion in bonds for this purpose.

Closing Thoughts on California's Housing Challenges

Closing Thoughts on California's Housing Challenges

- **Major Actions Taken in Recent Years...** Over the last few years, the Legislature has enacted major legislation and provided significant funding aimed at boosting home building through a variety of avenues. These actions likely will lead to improved outcomes.
- **...Are Mostly Shorter-Term.** However, committed resources are largely one time or for a limited set of years, while the state's housing and homelessness problem is chronic.
- **Legislative Oversight Remains Crucial.** Additionally, it is critical for the Legislature to exercise oversight over recent state investments and monitor the state's progress towards addressing homelessness and housing affordability. Recent efforts to improve the state's data collection related to homelessness will aid oversight.

Closing Thoughts on California's Housing Challenges

(Continued)

- Finally, the enormity of California's housing and homelessness challenges suggests that policymakers continue to explore a variety of solutions. Below we identify possible responses being discussed by the Legislature and/or stakeholders to supplement existing actions.
 - Expanding state housing and homelessness programs.
 - Reforming local zoning laws.
 - Altering Allocation of local taxes.
 - Reforming local impact fees.
 - Streamlining California Environmental Quality Act.
 - Tying state funding to local housing production.
 - Rent regulation and tenant protections.
 - Expanding tax increment financing options.
 - Lowering voter-approval thresholds for local taxes.

lao.ca.gov



OBSTACLES AND OPPORTUNITIES AT THE INTERSECTION OF PUBLIC FINANCE AND THE HOUSING CRISIS



Session One | Gaining Ground in the Affordable Multi-Family Housing Segment

Justin Cooper, Partner, Orrick, Herrington & Sutcliffe LLP

Richard Gentry, President & CEO, San Diego Housing Commission

Jeree Glasser, Vice President, Northern California, Jamboree Housing Corporation

No Slides for This Session



OBSTACLES AND OPPORTUNITIES AT THE INTERSECTION OF PUBLIC FINANCE AND THE HOUSING CRISIS



Session Two | Opportunity in Our Own Backyards: Development and Finance of Accessory Dwelling Units

Richard Gentry, President & CEO, San Diego Housing Commission

Jacky Morales-Ferrand, Housing Director, City of San Jose

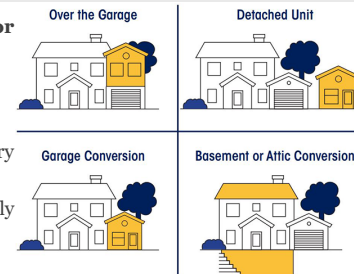
Robert Larkins, Managing Director, Loop Capital Markets



Definitions

What is an ADU?

- Also commonly referred to as a “grannyflat,” an ADU is an accessory dwelling unit with complete independent living facilities for one or more persons and has a few variations:
 - Detached: The unit is separated from the primary structure
 - Attached: The unit is attached to the primary structure
 - Converted Existing Space: Space (e.g., master bedroom, attached garage, storage area, or similar use, or an accessory structure) on the lot of the primary residence that is converted into an independent living unit
 - Junior Accessory Dwelling Unit (JADU): A specific type of conversion of existing space that is contained entirely within an existing or proposed single-family residence
 - May be conventionally site-built, but also includes Modular and Manufactured units



Modular

- Partially constructed in a factory and shipped to the homeowner’s lot, where it’s pieced together, put on a foundation and then completed
- Like traditional homes, modular homes are placed on a permanent foundation and often have full basements



VS

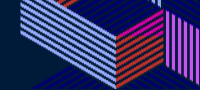
Manufactured (or “Factory Built”)

- Completely constructed in a factory and built on a fixed, steel chassis (rather than a permanent foundation)
- GSEs⁽¹⁾ will require unit to be attached to a permanent foundation with evidence of compliance with HUD standards (typically an attached HUD Data Plate)



In all cases, ADUs must conform to local Building Codes

(1) Government Sponsored Entities, mainly, in the case of ADUs, FNMA (Fannie Mae) and FHLMC (Freddie Mac)



Orders of Magnitude #s Would Suggest There's a Gold Mine in the Back Yard !

Median Cost to Build an ADU ⁽¹⁾	\$150,000	
Monthly Mortgage Cost ⁽²⁾	\$612	
		Implied DTI ⁽³⁾
Average CalPERS Pension (monthly)	\$2,975 ⁽⁴⁾	21%
Average CalSTRS Pension (monthly)	\$4,475 ⁽⁵⁾	14%
Median ADU Rental Income ⁽¹⁾	\$2,000 / month	
Net to Homeowner	~\$1,400 / month ⁽⁶⁾	

Most commonly cited reasons for low/slow ADU implementation: 1) Local zoning/permitting and 2) Financing (particularly “upfront” costs)

(1) UC Berkley Center for Community Innovation Study April 22, 2021

(2) 30-year fixed @ 2.75%;

(3) DTI = debt-to-income ratio; Excludes Any Other Debt

(4) Source: <https://www.calpers.ca.gov/docs/forms-publications/facts-pension-retirement.pdf>

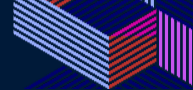
(5) Source: https://www.calstrs.com/sites/main/files/file-attachments/public_pensions_for_california_educators.pdf

(6) Excludes insurance & taxes



Recent Statutory Changes in California Reflect Strong “Pro ADU” Legislative Intent

- **The Legislature has determined and declared that allowing ADUs in zones that allow single-family and multi-family uses provides critically needed rental housing and is an essential component in addressing California’s pressing housing crisis**
 - A multitude of bills have been adopted to reduce local impediments to ADU production
- **Local agencies can still impose certain limited objective design standards, and local building codes and health and safety requirements still apply. However:**
 - Any adopted local agency ADU ordinance must comply with State ADU law and is subject to HCD review (and enforcement)
 - Absent an adopted (compliant) local ADU ordinance, new ADUs subject only to standards set in State ADU law
 - Cannot include minimum lot size requirements, and lot coverage requirements cannot preclude a “Statewide Exception ADU” = < 800 sq ft, 16 feet in height, with 4 feet side/rear yard setbacks
- **Generally, requires only *ministerial approval* of an application for ADU/JADU building permits within a residential or mixed-used zone**
 - No discretionary review or hearing
- **An application for the creation of an ADU or JADU shall be *deemed approved* if the local agency has not acted on a completed application within 60 days**
- **ADUs < 750 square feet exempt from local agency impact fees**
 - < 500 square feet exempt from school impact fees
- **ADUs considered “invisible” for purposes of complying with local agencies’ general plan and zoning densities**
- **Parking requirements for ADUs shall not exceed one parking space per unit or bedroom, whichever is less**
 - May be satisfied as “tandem parking” on a driveway
- **When a garage, carport or covered parking structure is taken out by an ADU, local agency cannot require replacement off-street parking**
- **Local ordinances cannot limit the # of bedrooms in an ADU**



Recent Statutory Changes in California Reflect Strong “Pro ADU” Legislative Intent (continued)

- ADUs not considered “new residential use” for purposes of calculating connection fees or capacity charge for utilities (including water and sewer)⁽¹⁾
- No owner-occupancy requirement for new ADUs constructed between 1/1/2020 and 12/31/2024
- Except for State Exemption ADUs, local agencies may limit areas permissible for ADU development based on the adequacy of water and sewer services, as well as the impacts on traffic flow and public safety
- A local agency’s “housing element” must include zoning parameters *vis-a-vis* ADUs and must include a plan that incentivizes and promotes the creation of ADUs
- ADUs (and JADUs) may be counted for purposes of local agencies’ Regional Housing Needs Allocation (RHNA) compliance
- Manufactured Homes qualify as ADUs
- In September, Governor Newsom signed 31 bills related to affordable housing and ADUs
 - Created a new Housing Accountability Unit at HCD to provide technical assistance to local jurisdictions, as well as enforcement powers *vis a vis* compliance with RHNA goals
 - Established a \$100 million program under CalHFA to provide grants up to \$25,000 to income-qualified homeowners to build ADUs

⁽¹⁾ Unless constructed with a new single-family dwelling



SAN DIEGO ADU EXAMPLE 1
Peterlynn Drive | Manufactured Unit



SAN DIEGO ADU EXAMPLE 2
Enero Street



SAN DIEGO ADU EXAMPLE 3

Kimsue Way



City of San Jose's Accessory Dwelling Units

Jacky Morales-Ferrand
Director, Housing Department

Facts & Stats



180

Sq. miles

1M

2018 pop.

1777

Year founded

10th

US pop rank

\$116K

Med. HH Income

\$3,328

2-bedroom rent

40%

Foreign Born

45%

Pop with B.A.+

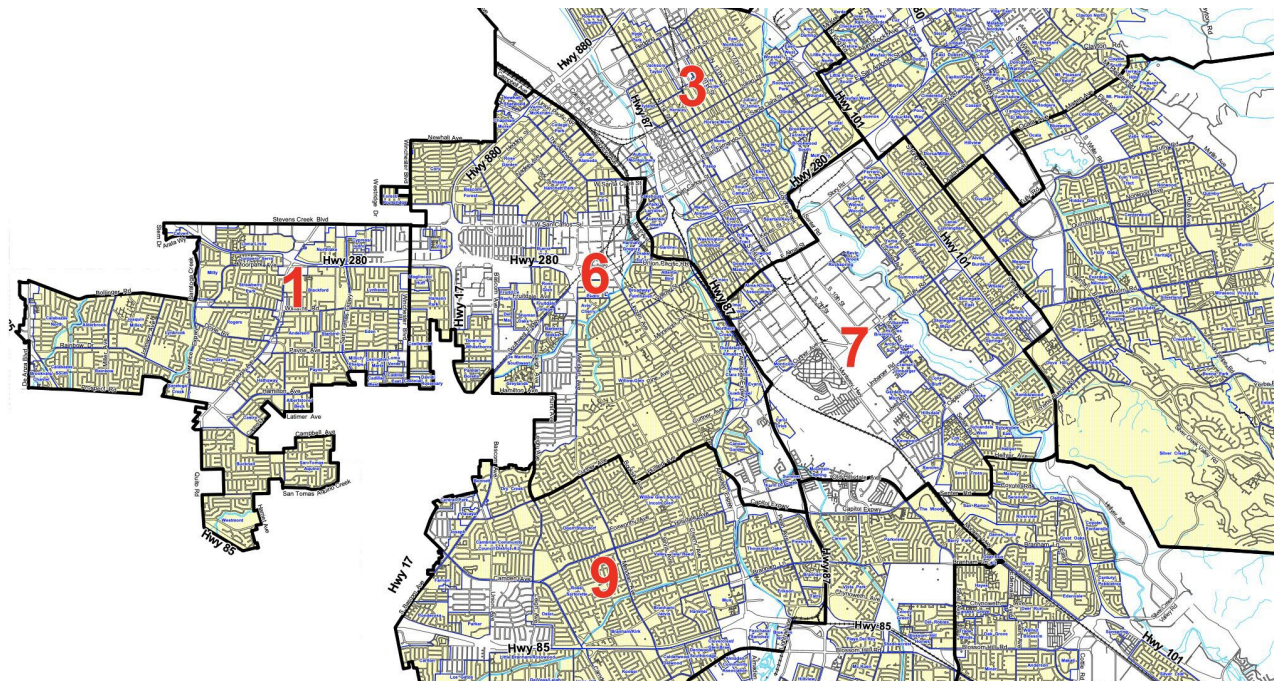
SAN JOSE



SoFA Street Fair



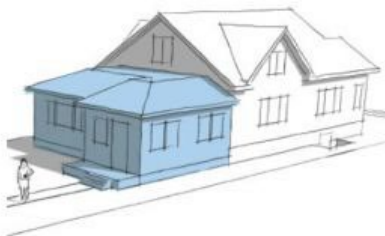
Housing Crisis



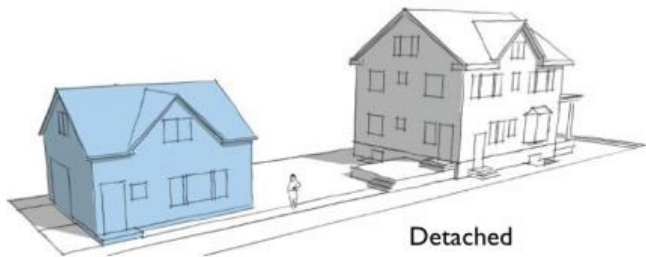
Accessory Dwelling Units



Internal



Attached



Detached

- 🏠 State eliminated obstacles
- 🏠 San Jose has thousands of parcels big enough to support ADUs
- 🏠 We have POLITICAL WILL!

Process Improvements



Customer Readiness



ADU Ally



Universal Checklist



ADU Website

Expedite Reviews



ADU Tuesdays



Master Plans



Inspection Issues
Checklist


Ordinance Updates



ADU Emergency Ordinance Update

1. Minimum lot size to qualify for an ADU is eliminated
2. ADUs allowed in more single-family zoning districts and duplex and multifamily zoning districts
3. Junior ADUs are now allowed
4. ADUs can be bigger with up to 2 bedrooms
5. Attached ADU size is eased
6. Backyard coverage rule is eased
7. Rules for ADUs on historic properties are eased
8. Replacement parking no longer required

ADU- Amnesty Program



CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY
*Planning, Building and
Code Enforcement*

BULLETIN #999 12/31/19 SUBJECT TO CHANGE

ADU Amnesty Program

ADU Amnesty Checklist

Fill out this checklist to the best of your ability. The purpose of this checklist is the first step in evaluating an unpermitted ADU and to help you understand what might be required to participate in this program. After answering these questions, the homeowner can reach out to the Amnesty Program point of contact to discuss the responses and process for next steps. There is no risk for contacting the City staff.

QUESTIONS	COMMENTS	
SECTION A. GENERAL		
1. Is the ADU attached or detached from the primary residence?		
2. Was the ADU built as an ADU, or was a permitted structure converted to the ADU.		
3. Estimated date of conversion?		
4. When was the ADU built? (Estimated date)		
SECTION B. FIRE		
5. Are there any walls at least 5' to the property line?	YES	NO
Are all windows, doors, or openings greater than 3' to the property line?		
6. If detached, is it at least 10' from the main house?		
7. If attached, is the wall 1-hour rated and sound rated? (1 hour rated: If the wall has 5/8" type x dry wall both sides)		
SECTION C. BUILDING		
9. Does the ADU have an exterior door that is at least 3' wide and at least 6'8" high?		
10. Does each room used for sleeping have an exterior door or window providing at least a 5.7 sq ft opening? Is the dimensions at least 20" wide and 24" high. Is the exterior window sill less than 44" high from the floor?		
11. Does the ADU have independent heating and its own thermostat?		
12. Does the ADU have at least 7'6" ceiling height?		



Results



YEAR	Total Permits Issued
2015	11
2016	35
2017	72
2018	141
2019	329
2020	349
2021 To- date	350



Study to Identify Challenges



Stanford Law School
Law and Policy Lab



San José Housing Department



Results



- 🏠 Do not want another unit on my property
- 🏠 Do not want to be a landlord or have tenants
- 🏠 It's too expensive to build
- 🏠 I fear an ADU would increase my property taxes
- 🏠 I don't know where to begin
- 🏠 My property doesn't qualify

Costs -- Deeper Look



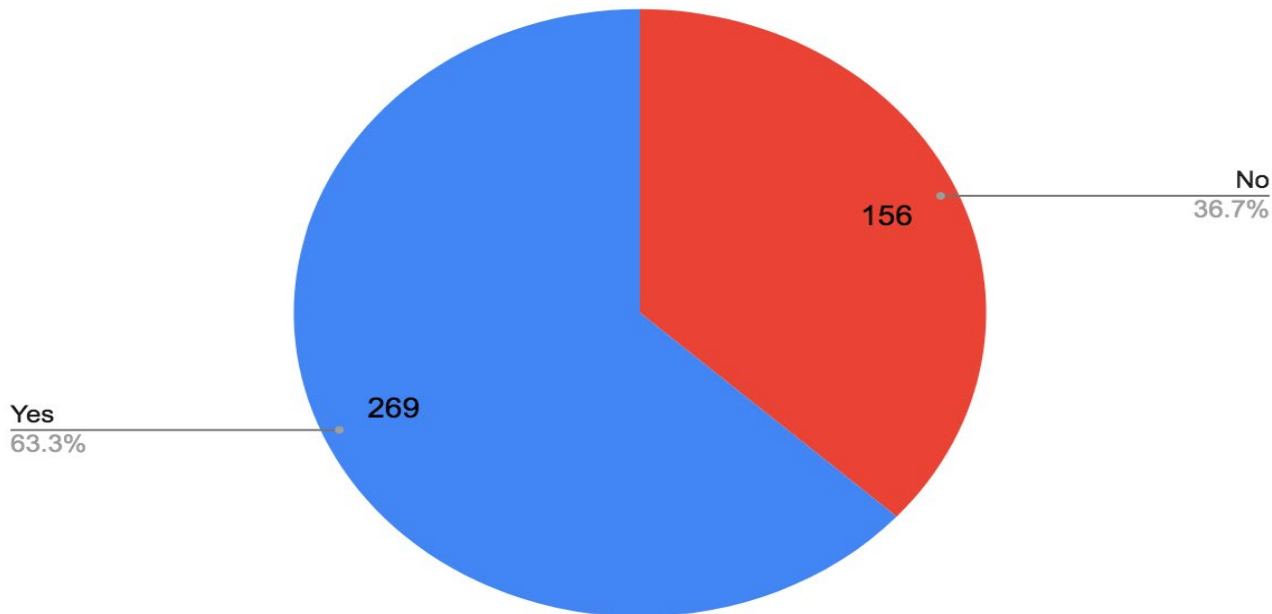
“The City has done a great job of making improvements. The biggest obstacle right now is the exorbitant cost of construction.”



Proposed Forgivable Loan of \$20K who rent for \$2,040 or less for 5 years



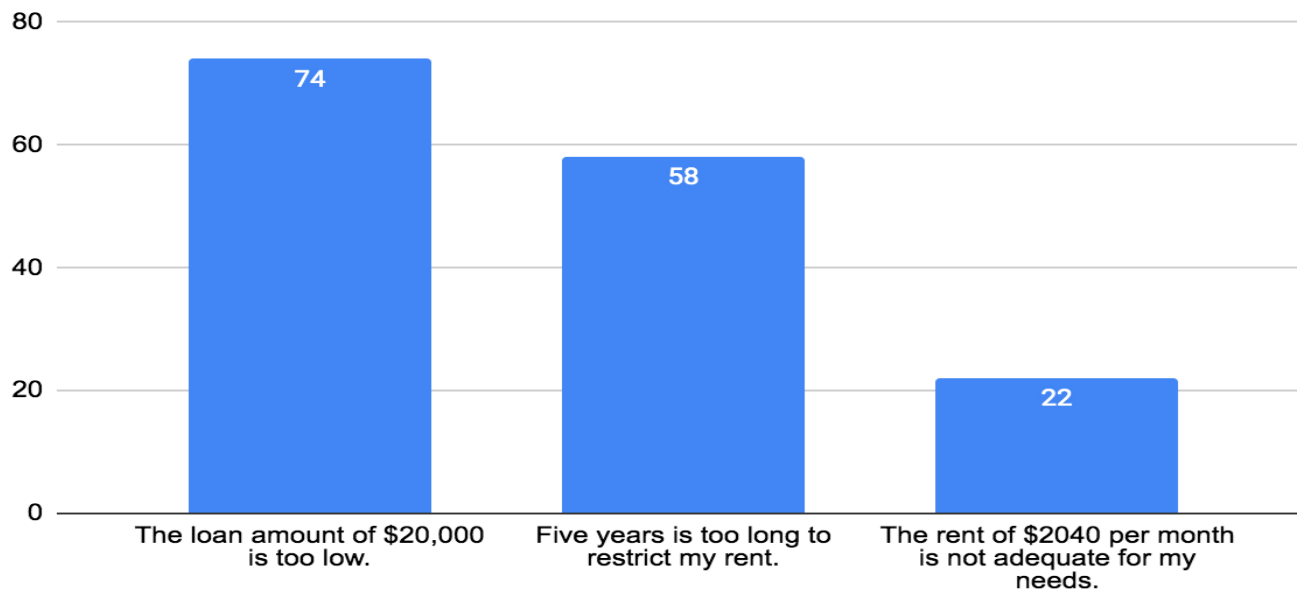
63% said yes; 37% said no



Why doesn't the program Interest You?



48% specifically said the loan was too low to interest them



Increase the Forgivable Loan Amount



"Since contractors are so expensive, you have to empower the homeowner."

"The City has done a great job of making improvements. The biggest obstacle right now is the exorbitant cost of construction."

"I can't afford the costs.... It would take me 12 years of rental income to pay off the necessary loan."

"I'd like the city to work with lenders to provide low cost loans to make the process more achievable."

"We need bigger forgivable loans."

Ideas to Improve Program

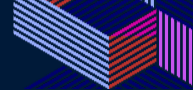


- Address perceived imbalance of landlord/tenant rights for ADUs (educate on ADU exemptions)
- Explain Property Tax Implications Up Front; Consider Property Tax Relief For ADUs
- Expand Library of Pre-Approved Designs - More Variety, Price Points
- Add More Prefabricated Models to Library of Pre-Approved Designs
- Publicize and Simplify Existing ADU Checklist
- Increase the Forgivable Loan to \$50,000 (even with longer rent-cap requirement)
- Alternatively, publicize the median cost to dissuade those who can't afford to build from entering the process only to divert staff time away from those who can afford to build
- Create a List of Contractors That Use Alternative Financing Models (e.g. Rent The Backyard)



City of San Jose's Accessory Dwelling Units

Jacky Morales-Ferrand
Director, Housing Department



Building the Foundation for a Viable ADU Financing Program

- As part of the State Treasurer's Housing, Economic Development, Jobs and Opportunity Zone Ad-Hoc Committee, Loop's first task was to identify "the friction points" in the existing financial ecosystem related to ADU financing



- We started "at the back-end first" – to identify the various GSEs' criteria related to ADUs, knowing that without a viable offtake, banks would be unlikely to make construction loans or takeout loans for ADUs
- A key objective was to find a way to enable ADU "sponsors" (homeowners) to monetize prospective ADU rental income
- Both Fannie Mae and Freddie Mac have programs that allow inclusion of ADU income in qualifying *income but only for first-time home buyers of properties with existing ADUs* (which would not add to the housing stock)



What Qualifies as an Accessory Dwelling Unit For FNMA⁽¹⁾

The ADU must provide for living, sleeping, cooking and bathroom facilities and be on the same parcel as the primary one-unit dwelling

- **Only one ADU is permitted on the parcel of the primary one-unit dwelling.**
- **ADUs are not permitted with a two- to four-unit dwelling**
- **The ADU must**
 - be subordinate in size to the primary dwelling.
 - have the following separate features from the primary dwelling:
 - means of ingress/egress, kitchen, sleeping area, bathing area, and bathroom facilities.
- **The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.**
- **The kitchen must, at a minimum, contain the following:**
 - cabinets;
 - a countertop;
 - a sink with running water; and
 - a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes)

⁽¹⁾ Source: FNMA Selling Guide, March 3, 2021



Fannie Mae's HomeStyle Program

- **A HomeStyle renovation loan would allow homeowners to tap the equity in their primary residence to finance the addition of an ADU (through a limited cash-out refinance)**

- Prospective ADU income is NOT included in qualifying income;
- However, it appears that sponsoring governmental agencies can loan against the prospective ADU income (if structured in compliance with Fannie Mae's Community Seconds checklist)

- **Assuming a single ADU on a single parcel owned by the borrower/primary resident, and a fully amortizing fixed-rate first lien mortgage (secured by the entire property):**

- The maximum cost for renovations for HomeStyle Renovation must not exceed 75% of the “as completed” appraised value of the property
- For example, if the appraised value of the property (with ADU added) is \$400K, then the maximum renovation cost allowed would be \$300K
- For a limited cash-out refinance on a 1 unit, the maximum LTV/CLTV/HCLTV for a fixed-rate first-lien mortgage is 97%⁽⁵⁾
- Using the same example, if the appraised value (after ADU added) is \$400K, then the maximum allowable Homestyle Mortgage (97%) would be \$388K

Maximum LTV, CLTV, HCLTV ⁽²⁾	Credit Score / LTV ⁽⁴⁾	Minimum Reserves ⁽³⁾	Credit Score / LTV ⁽⁴⁾	Minimum Reserves ⁽³⁾
97%	680 if > 75% 640 if ≤ 75%	0	720 if > 75% 680 if ≤ 75%	0
	620 if ≤ 75%	2	700 if > 75% 660 if ≤ 75%	6
	660 if > 75%	6		6

Requirement:	<i>Renovation cost ≤ 75% of appraised property value</i>	<i>LTV/CLTV ≤ 97% of appraised property value</i>
Appraised Value Example:	\$400,000	\$400,000
Maximum Renovation Cost/HomeStyle Mortgage:	\$300,000	\$388,000

- **Importantly, the appraisal would be done pre-construction of the ADU on an “as completed” basis (factoring in the estimated incremental value of the planned ADU)**

- **Credit Scores are an important factor, and it does not appear that a state/local agency loan backstop is a viable patch**

- Facilitating ADU production by lower credit score homeowners may require a state/local agency funded program (potentially in partnership with Foundations)
 - Seasoned, performing loans could be securitized, with proceeds recycled into new ADU loans

(1) DTI = Debt to Income ratio. Gross monthly income vs monthly rent, mortgage, credit card and any other installment debt payments.

(2) Limited cash-out refinance, single property

(3) “Minimum Reserves” refers to months of mortgage payments demonstrated on borrower's 2 most recent bank statements – a “point in time” (at the time of the application) evaluation. The reserves shown are for manually underwritten loans. Desktop Underwriting will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserve requirement that may be required for the transaction. 97% LTVs are limited to Desktop Underwriting. Manually underwritten loans are limited to 95% LTV.

(4) LTVs shown are limited to Desktop Underwriting

(5) For LTVs > 95%, for limited cash-out refinance transactions, the loan must be owned or securitized by Fannie Mae



Parameters for a State or Local Agency-Provided Community Second to “Monetize” Potential ADU Income

- **To reduce borrowers’ First (funded by Fannie Mae), and enable borrowers to monetize expected ADU income, the State or other sponsoring local agency could potentially offer a Subordinate Second, subject to:**
 - Combined LTV⁽¹⁾ ≤ 105% of value determined pursuant to Fannie Mae’s appraisal standards
 - The 2nd loan must be fixed-rate, fully amortizing – no balloon
 - If structured to include negative amortization, acceptable if either:
 - (a) The interest is accrued at a rate that is not more than 75% of the rate of the first lien⁽²⁾ and is fully deferred until sale or transfer of the property, refinance or other full repayment of the first lien, or
 - (b) Accrued interest is only assessed as a penalty upon default under the subordinate financing documents
 - The interest rate on the 2nd cannot exceed the interest rate on the first mortgage loan by more than 2%
- **If the Second is structured as a zero interest “participating second,” the Sponsoring Agency’s share of sale proceeds cannot exceed the original ratio of the initial loan amount to the initial value of the property as determined per the appraisal upon which Fannie Mae made its First**
 - For example, subject to certain exceptions, if the Second had an initial amount of \$30,000, and the initial value of the property (including the estimated incremental value of the ADU) was \$300,000, then the Sponsoring Agency’s share of sale proceeds would be capped at 10%

Per Fannie Mae’s Selling Guide, donated Grant funds from an acceptable entity (such as the State, a local housing agency, a Community Foundation or other philanthropic organization) can be used to fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirement.⁽³⁾

(1) Fannie Mae First + governmental Second

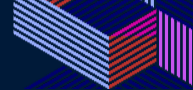
(2) i.e. The negative amortization speed of the Second cannot exceed 75% of the amortization speed of the First

(3) Note: Fannie Mae’s Selling Guide ultimately governs the eligibility guidelines for loans eligible for delivery to Fannie Mae



Key Takeaways

- **The Legislature has demonstrated a strong intent to encourage/facilitate ADUs to help address the State’s pressing housing crisis**
- **Adopted legislation limits local impact fees, overrides certain local zoning restrictions and requires expedited/ministerial approvals**
- **Local ADU ordinances are subject to HCD review, which has been provided enhanced oversight/enforcement authority**
- **FNMA’s HomeStyle renovation loan appears to provide a viable offtake for construction lenders for ADU loans**
- **The State and/or local agencies can help homeowners monetize ADU income through qualifying Community Seconds, including “participating seconds”**
 - Participating loans may also be a viable path for the State/local agencies to directly assist lower credit score ADU sponsors
- **CalHFA’s new \$100 million ADU grant program is intended to produce 4,000 new ADUs**



Recommended Resources

California Department of Housing and Community Development (HCD)

- ***Accessory Dwelling Unit Handbook***

- Updated December 2020

Source: https://www.hcd.ca.gov/policy-research/docs/adu_december_2020_handbook.pdf

UC Berkeley Center for Community Innovation

- ***Implementing the Backyard Revolution: Perspectives of California's ADU Owners***

- April 22, 2021

Source: <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf>



OBSTACLES AND OPPORTUNITIES AT THE INTERSECTION OF PUBLIC FINANCE AND THE HOUSING CRISIS



Session Three | Planning for the Housing Surge

Eileen Gallagher, Managing Director, Stifel, Nicolaus & Company

Louis Mirante, Legislative Director, California YIMBY

Tim Seufert, Managing Director, NBS



Housing Housing Housing!

How can local governments offer options for funding and financing housing?





Challenges abound





A few successes:

- Folsom Specific Plan, with CFDs
- Vacaville “infill CFD”
- Livermore, West County, NID: Infill Assessment Districts for water and sewer infrastructure
- Rio Vista: Restructuring of existing CFD to facilitate new development





The Categories – to frame our discussion today

1. Greenfield Development
2. Infill Development
3. Redevelopment

First, at the policy level:

- Reduce time and effort to permit
- Allow various forms of construction/modular, etc.



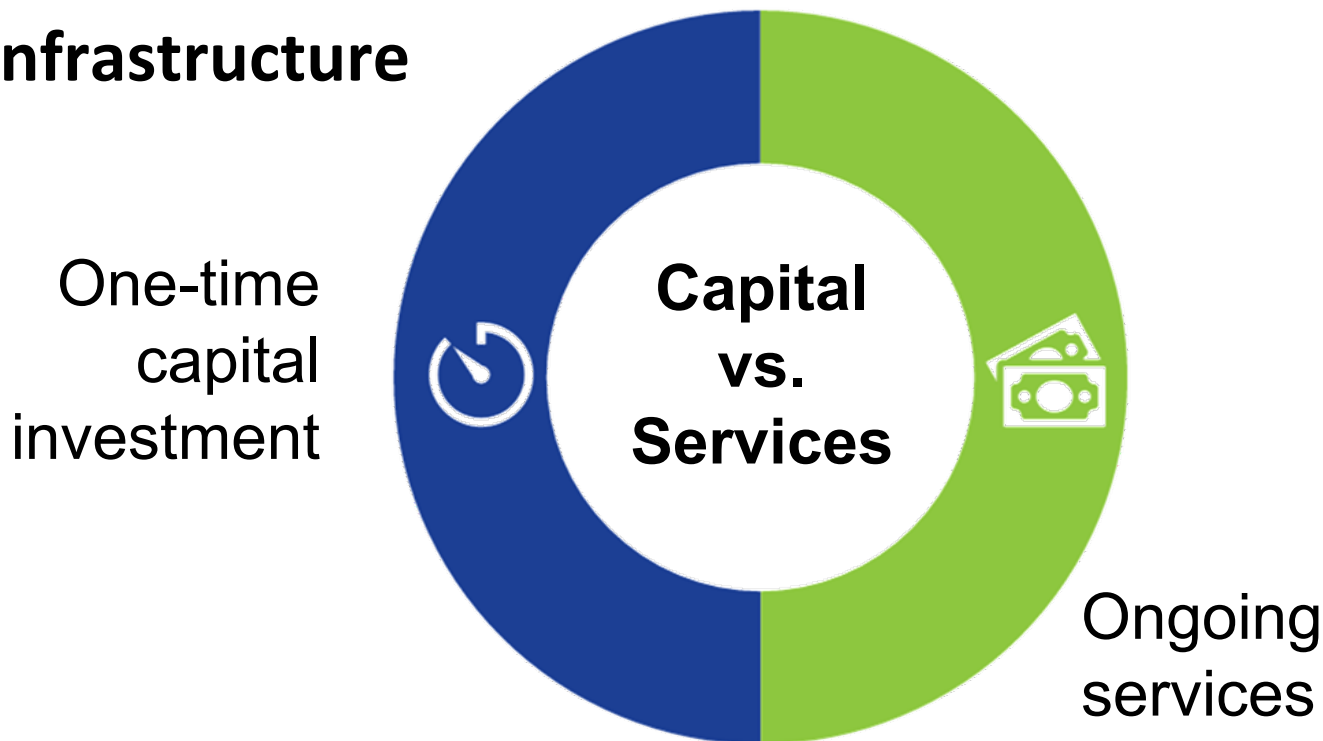
- Provide for low- and mod-income housing options
- Discuss and set Goals and Policies for Greenfield, Infill, and Redevelopment





Funding vs Financing?

Services vs. Infrastructure



The Tool Box:

- FIA – Fiscal Impact Analysis
- DIF – Development Impact/Capacity Fees
- CFDs – Community Facilities Districts
- Assessment Districts
- Parcel Taxes
- The Others: EIFDs, Property-related Fees, etc.





Development vis-a-vis Fiscal Impact



Must consider: One-time costs vs. Ongoing?



The FIA

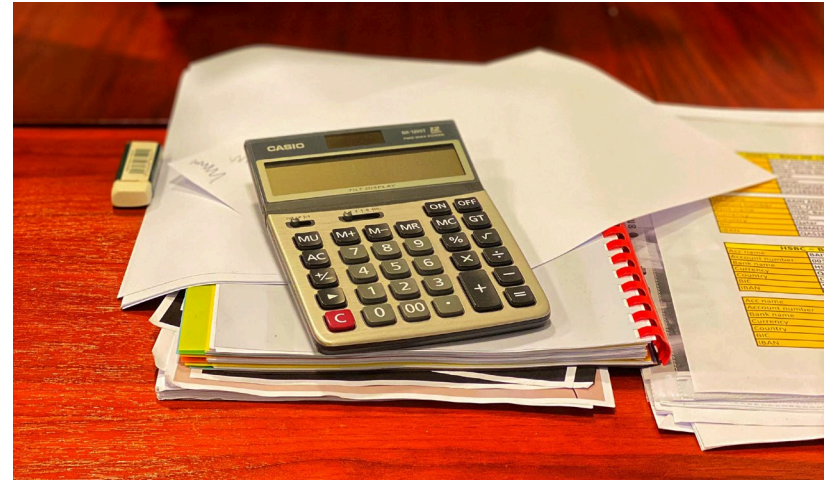
- New development and redevelopment
- Quantification of the fiscal impacts





DIFs and Capacity Charges

- What are they?
- Why needed?
- Our challenges today (ADUs, Micro Units, other scaling?)





DIF and/or Quimby Fees

COST-BASED

- Fee may not exceed cost of service

APPROVAL MECHANISM

- Approval by Council or District Board
- Approval by land use agency legislative body

SAMPLE PROJECTS

- DIF - park improvements, community center, rec facilities, trails/open space (Gov Code 66000)
- Quimby - park land acquisition or fee in lieu for residential subdivisions (Gov Code 66477)



- **The CFD – The “Designer Tax”**
- **Parcel Taxes**





CFDs and Parcel Taxes

NOT BENEFIT-BASED

- Reasonable metrics
- Achieves local goals and policies
- “Additional” Services if landowner vote
- Any services if voter vote

APPROVAL MECHANISM

- Registered voter approved
- OR
- CFD landowner vote(s)
 - 2/3 votes in favor

SAMPLE PROJECTS

- Park, road, open space maintenance
- Flood/storm protection system maintenance
- Parks, parkways & open space
- Flood/storm protection system
- Public facilities with useful life of 5+ years



Special Assessments/Benefit Assessments

ARE BENEFIT-BASED

- General benefit
- Rigor of assessment engineering
- Still viable...

APPROVAL MECHANISM

- Property-owner
- Protest ballot
- 50% + protest?

SAMPLE PROJECTS

- Infrastructure, new and replacement
- Ongoing maintenance



The Others

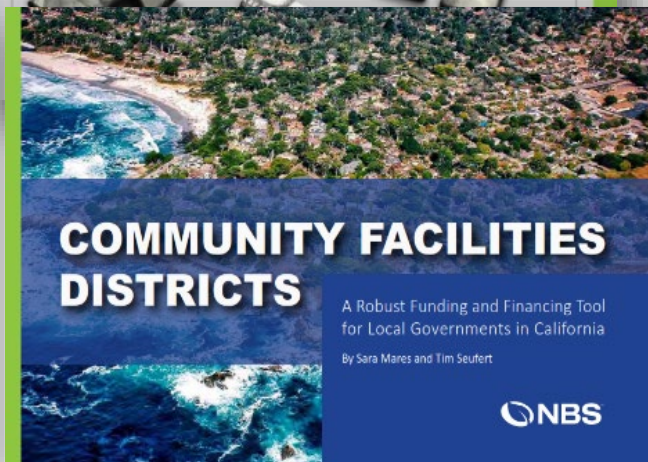
- EIFD
- Property-Related Fees
- County Service Areas/CSAs



NBS Resources

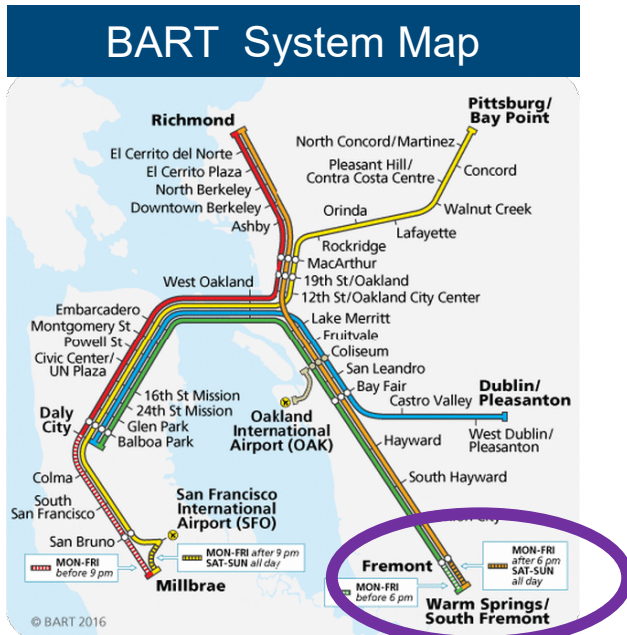
w: nbsgov.com

e: tseufert@nbsgov.com



Case Study: Transit-Oriented Infill Project – Fremont Warm Springs CFD

- 2010 Community Plan focused on 879 acres of vacant and underused industrial land
- Near planned BART station and former GM/NUMMI plant which became Tesla plant

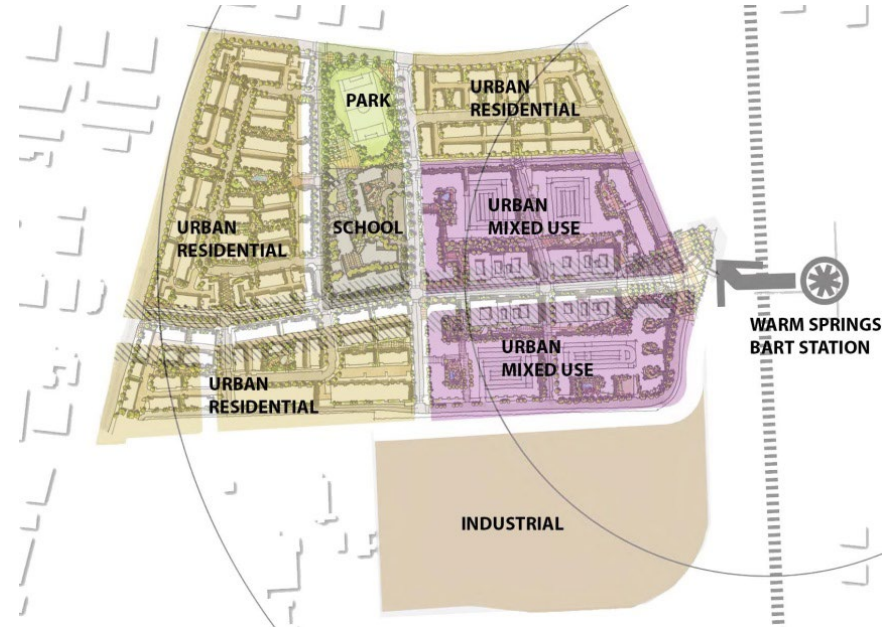


Lennar is developing one of several residential projects underway in the Plan area

Innovation Project

- 958 attached for-sale residential units
- 1,256 multi-family rental units
- A new public elementary school (TK-6)
- A 4-acre joint-use park
- At least 750,000 sq.ft. commercial space

Site Plan for Lennar's Project





CFD No. 2 (Warm Springs Public Facilities)

- Formed on *for-sale residential units* only
- Much like a typical “greenfield CFD” but in a denser “TOD” context
- Raised \$17 million to fund infrastructure
- Affordable housing project nearby was a condition of development

Warm Springs Innovation Project



Case Study: Land Use Up-Zoning – San Francisco Transbay CFD

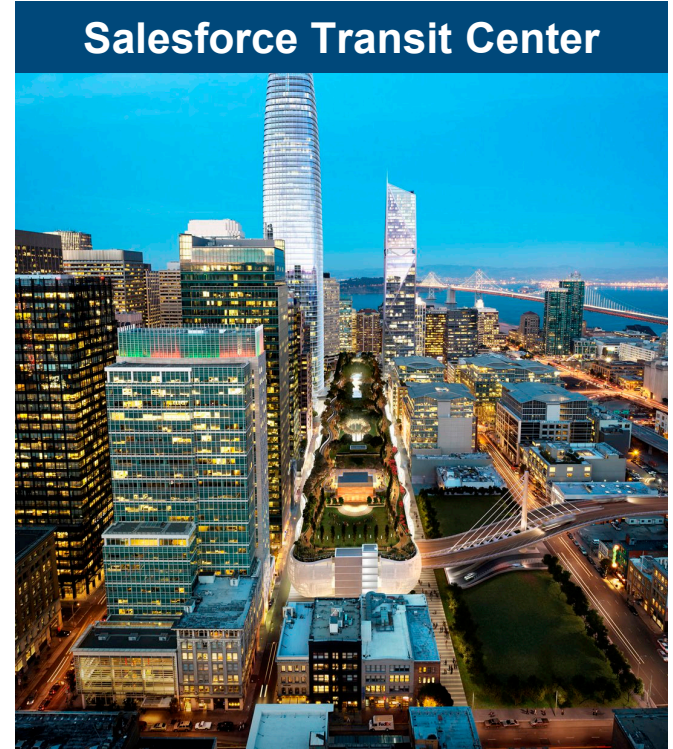
Transit Center District Plan

- City approved in 2012
- Eliminated certain density caps and increased height limits in immediate vicinity of planned new transit terminal

CFD No. 2014-1

- City formed in 2014
- “Future annexation area” covers Transit Center District Plan area
- Projects using density bonuses *must* annex into the CFD
- Special taxes levied only upon *completed* buildings for up to 30 years each

Salesforce Transit Center



Case Study: Tax Increment for Housing – Sacramento Aggie Square

Aggie Square Innovation Hub

- Planned private development of life sciences buildings, educational space on leasehold interest on a portion of UC Davis' Sacramento campus

City forming overlapping CFD and EIFD

- CFD bonds will fund up-front infrastructure
- As development proceeds, up to 80% of *incremental* property tax revenues can be used to offset CFD special tax levy
- City will retain 20% of tax increment for affordable housing



Case Study: Office Housing Mix – San Francisco Mission Rock

Mission Rock

- Mixed-use waterfront development on former parking lot serving the Giants' Oracle Park
- Planned for up to 1.4 million square feet of office, about 1,120 residential units, retail, parks and open space
- 40% of the residential units targeted to low and moderate income households
- Impact fees on office subsidize housing

Overlapping CFD and IFD

- CFD bonds will fund up-front infrastructure
- As development proceeds, *tax increment* will reduce special tax levy





The Regulatory Fine Print:

Stifel, Nicolaus & Company, Incorporated (“Stifel”) has prepared the attached materials. Such material consists of factual or general information (as defined in the SEC’s Municipal Advisor Rule). Stifel is not hereby providing a municipal entity or obligated person with any advice or making any recommendation as to action concerning the structure, timing or terms of any issuance of municipal securities or municipal financial products. To the extent that Stifel provides any alternatives, options, calculations or examples in the attached information, such information is not intended to express any view that the municipal entity or obligated person could achieve particular results in any municipal securities transaction, and those alternatives, options, calculations or examples do not constitute a recommendation that any municipal issuer or obligated person should effect any municipal securities transaction. Stifel is acting in its own interests, is not acting as your municipal advisor and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934, as amended, to the municipal entity or obligated party with respect to the information and materials contained in this communication.

Stifel is providing information and is declaring to the proposed municipal issuer and any obligated person that it has done so within the regulatory framework of MSRB Rule G-23 as an underwriter (by definition also including the role of placement agent) and not as a financial advisor, as defined therein, with respect to the referenced proposed issuance of municipal securities. The primary role of Stifel, as an underwriter, is to purchase securities for resale to investors in an arm’s-length commercial transaction. Serving in the role of underwriter, Stifel has financial and other interests that differ from those of the issuer. The issuer should consult with its’ own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate.

These materials have been prepared by Stifel for the client or potential client to whom such materials are directly addressed and delivered for discussion purposes only. All terms and conditions are subject to further discussion and negotiation. Stifel does not express any view as to whether financing options presented in these materials are achievable or will be available at the time of any contemplated transaction. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by Stifel to provide or arrange any financing for any transaction or to purchase any security in connection therewith and may not be relied upon as an indication that such an offer will be provided in the future. Where indicated, this presentation may contain information derived from sources other than Stifel. While we believe such information to be accurate and complete, Stifel does not guarantee the accuracy of this information. This material is based on information currently available to Stifel or its sources and is subject to change without notice. Stifel does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and /or counsel as you deem appropriate.