



April 13, 2015

Heidi Sykes
California Department of Transportation
1120 N Street, MS #28
Sacramento, CA 95814

Dear Ms. Sykes:

Thank you for submitting the revised standardized regulatory impact assessment (SRIA), summary (Form DF-131), and other related documents for the February 27, 2015 version of the proposed Affordable Sales Program regulations, as required in California Code of Regulations, title 1, section 2002(a)(1). Please note that the January 23, 2015 comments letter from Finance included in the Affordable Sales Program rulemaking package submitted to the Office of Administrative Law was for a different set of regulations. Even if regulations are related, a separate SRIA and comments from Finance are required for each regulation submitted through the Administrative Procedures Act process.

Finance agrees that the proposed regulations meet Finance's Major Regulations threshold based on the impacts calculated. The Affordable Sales Program regulations are intended to allow Caltrans to sell approximately 400 excess residential properties from the highway 710 connector program in Southern California. The majority of these properties are rented out and the rents go in part to the local area government, with the remainder allocated to transportation bond debt repayments, thus lowering General Fund obligations for the state. These revenues partly offset the costs to the state of maintaining the properties. The underlying statutes direct Caltrans to use sales proceeds for transportation projects in the region. The proposed regulations lay out the order of eligibility, how to calculate prices for qualified buyers, and the conditions for sale. One of those conditions is that buyers who purchase the property at an affordable price must return the subsidy to the state if they subsequently sell the property at a fair market price. The regulations then direct that portion of the proceeds to a newly-created Affordable Housing Trust Account to be administered by the California Housing Finance Agency to expand the supply of affordable housing in the area, rather than to transportation projects. The regulations also require housing-related entities that purchase properties at a reasonable price to offer existing tenants the option to purchase from them at a fair market value – the housing-related entity then may keep the difference (rather than remitting it to the state) and use it for other affordable housing initiatives. A key assumption is that buyers have access to financing for the projected sales. Thus, the impacts stem from what revenues the state receives, how those revenues are used, and the benefits the buyers receive.

Finance generally concurs with the methodology used to estimate the annual impacts under the affordable sales program. However, there are three areas where the analysis is incomplete. First, the SRIA needs to include a discussion of two impacts that are required in California Code of Regulations, Title 1, section 2003 (a)(3)(C) and (E). These are competitive advantage or disadvantage and innovation incentives.

Second, the discussion of the fiscal impacts is incomplete. The proposed regulations state that subsequent sales of affordable properties and housing-related private entities will be monitored.

Caltrans proposes that the California Housing Finance Agency administer some of the conditions of the affordable sales program. Therefore, the resource commitment of this agency to the affordable sales program has to be included in the SRIA. This is particularly important given that Caltrans projects it will take five years to sell all the excess properties.

Third, the SRIA must address the impacts of redirecting sales proceeds towards housing entities and the proposed Affordable Housing Trust Account for the purposes of expanding affordable housing in the area. The SRIA does discuss the impacts of additional transportation spending, as directed by the statute, but does not discuss the benefits to low and moderate income households in the region if more affordable housing becomes available as a result of the proposed regulations. These benefits could be substantial, given the estimated proceeds flowing to the Affordable Housing Trust Account are around \$88 million, and the housing-related entities would also receive \$30 million.

These comments are intended to provide sufficient guidance outlining revisions needed in this analysis. Since our comments fall in the public comment period, the SRIA, a summary of our comments, and your responses to them must be circulated during an additional public comment period through the Office of Administrative Law. If any significant changes to the proposed regulations result in revisions to the economic impacts in the report, Caltrans is reminded that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. A copy of the SRIA, Form DF-131, and our comments have been posted on Finance's website, and you may request that we post your response and a revised SRIA (if any) as well. Please let us know if you have any questions regarding our comments.

Sincerely,



Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Governor's Office on Business and Economic Development
Ms. Debra Cornez, Office of Administrative Law
Mr. Brian P. Kelly, California State Transportation Agency
Mr. Brian Annis, California State Transportation Agency
Mr. Malcolm Dougherty, California Department of Transportation
Mr. Brent Green, California Department of Transportation
Ms. Christine Inouye, California Department of Transportation
Ms. Jennifer Lowden, California Department of Transportation
Ms. Karla Sutliff, California Department of Transportation