Summary

Statement of Need for the Proposed Regulation

Streets and Highways Code section 118.6 states that California Department of Transportation (Caltrans), to the greatest extent possible, will offer to sell or exchange property that has been determined by Caltrans to be excess to their needs. Government Code sections 54235 through 54238.7 known as the Roberti Act and amended by Senate Bill 416 in 2013 which includes priorities for disposal of residential properties originally acquired for the State Route 710 (SR-710) extension in the cities of Los Angeles, South Pasadena, and Pasadena and includes requirements that the agency impose terms, conditions, and restrictions to ensure that housing will remain available for low or moderate income households. Together, these codes provide Caltrans with direction to establish a program that includes both excess property sales and an affordable housing program. Adoption of the proposed Affordable Sales Program (ASP) regulations will allow Caltrans to dispose of the surplus parcels of residential real property and endeavor to meet the intended goal of the Legislature of preserving and expanding the availability of low and moderate income housing supply. The proposed regulations will set forth the standards used to calculate the appropriate purchase prices to fulfill the state's mission of providing affordable home ownership to Californians. The proposed ASP regulations will provide the public with guidelines to determine the income levels used to qualify for the program, which in turn promotes fairness and social equity to the buying public.

Public Outreach

Caltrans held two public workshops, on October 23, 2013 and October 24, 2013, to gather input to address the issues deemed most important to the public. Caltrans held the public workshops in El Sereno and Pasadena to receive comments from current tenants, former tenants, and the general public. These comments were reviewed, evaluated, and, as Caltrans deemed appropriate, incorporated into the proposed regulations.

Caltrans held three public hearings, on July 15, 2014, July 17, 2014, and August 21, 2014 to take under submission all written and oral statements submitted or made during these hearings. Two more public hearings are planned for April 20 and 21, 2015.

As required by the Administrative Procedures Act, the text of the proposed regulations, Initial Statement of Reasons, Notice of Proposed Rulemaking and Extension Notices are posted to the internet here: http://www.dot.ca.gov/regulations.htm.
News releases were distributed on May 30, 2014, announcing the public written comment period open as of that date through 5:00 p.m. on July 14, 2014. On July 14, 2014, a news release was posted notifying of an extension of the written public comment period to 5:00 p.m. July 31, 2014 and on August 1, 2014, a news release was posted notifying of the second extension of the written public comment period to 5:00 p.m. September 2, 2014.

- Ads were posted in three (3) newspapers to increase public awareness of the proposed regulations, written comment period and public hearings.
- On May 29, 2014, Caltrans mailed a package to all tenants and other interested parties which included an Information Notice regarding the property sales for the SR-710 Corridor and the text of the proposed regulations.
- On July 14, 2014, the notice of extension of the written public comment period to July 31, 2014, was mailed to all tenants and interested parties.
- On July 30, 2014, the (second) notice of extension of the written public comment period notice to September 2, 2014, was mailed to all tenants and interested parties.
- On February 27, 2015, Caltrans withdrew the May 30, 2014 regulations and posted new regulations regarding the Roberti Act-Affordable Sales Program. A package was mailed to all tenants and other interested parties which included an Information Notice regarding the property sales for the SR710 Corridor and the text of the proposed regulations.

Sales

The sale of any state owned property including the properties related to the SR-710 project in Pasadena, South Pasadena, and the El Sereno area of the city of Los Angeles requires that the properties must be declared excess to the state’s needs. Caltrans must comply with the California Environmental Quality Act (CEQA) which is concerned with ensuring that there is no significant adverse change to the environment, and Public Resources Code section 5024 which is concerned with ensuring that there is no adverse effect to any historic properties.

The initial sale of the properties is planned in three phases:

- **Phase 1:** Properties that are not within the scope of the remaining project alternatives. The environmental document for the non-historic properties in Phase 1 will be completed in early 2015. The environmental document for the historic properties in Phase 1 will be completed in mid 2015.
- **Phase 2:** Properties that are within the scope of the remaining project alternatives for the SR-710 North project but still can be sold. The environmental document for this phase is planned to be completed in mid 2015. The number and specific properties for this Phase are still being studied.
- **Phase 3:** Remaining SR-710 properties will be declared excess after the completion of the approved preferred project alternative in the project environmental document for the SR-710
North project. The Draft Environmental Impact Report was released for circulation in February 2015. The Final Environmental Impact Report is planned to be complete in 2016.

Subsequent Sales:
Subsequent sales are assumed to start immediately with the double escrow described in the ASP Regulations dated February 27, 2015. This occurs when a Housing Related Entity purchases a home at a reasonable price and then concurrently sells it to the current tenant at fair market value. It is assumed that 64 of the single family homes purchased by the Housing Related Entities will be resold concurrently with the original sale to the current owner. It is also estimated that 25% of the multifamily homes and 25% of the remaining 45 single family properties purchased by the HRE’s will sell in the next 25 year period. All of the affordable single family homes are assumed to sell during that 25 year time frame.

Major Regulation Determination

After consultation with Department of Finance, it has been determined the proposed regulations will exceed $50 million in fiscal and/or economic impacts for a 12-month period, after the proposed regulation is estimated to be fully implemented. Fully implemented for this analysis is defined as the 5 year period needed to sell all the properties plus twenty five years for the subsequent sales for a total of 30 years. From the benefit-cost analysis, the statewide benefit is estimated to be $310 million and the statewide cost is estimated to be $100 million for the first five year period. See chart labeled First 5 Year Analysis Period on Page 9. This includes the benefit of $20 million -- $10 million to CalHFA’s Affordable Housing Trust Account and $10 million to the Housing Related Entity that will be generated by the double escrow sale of 25% of the single family FMV properties.

For the subsequent 25 years, it is estimated that 25% of the multifamily homes will sell, 25% of the single family homes that HRE’s purchase and 100% of the affordable properties. The estimated cost including mortgage payments and property tax is $800 million; the estimated benefit to the Affordable Housing Trust Account, the affordable property owners and the housing related entities is $185 million.

The total 30 year analysis period cost is estimated to be $900 million and the benefit is estimated to be $500 million

Economic Baseline: Without the proposed ASP Regulation, the properties would not be sold, and the properties would continue to be rented as they are today. The baseline is taken from the Bureau of State Audits Report 2011-120, dated August 2012, (2012 Audit) in addition to information obtained from the Division of Right of Way. The total statewide benefit for the baseline for the annual period is $13.5 million and the annual statewide cost is $13.5 million. See chart labeled BASELINE (w/o Regulations) on the next page.
Per a 2012 Audit and Division of Right of Way:
- 460 total number of parcels. 48 are unimproved and have no lessee.
- 398 single family residences and multifamily residences are owned by Caltrans, most are rented.
- CA General Fund received ~$4.8 million/yr in rent.
- CT paid ~$1.15 million/yr to LA County (24%).
- CT paid ~$5.5 million/yr in repairs.
- CT support costs for property management ~$2 million.

### Annual Baseline (w/o Regulations):

<table>
<thead>
<tr>
<th>Benefits:</th>
<th>Costs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Management Employees(salaries)</td>
<td>Individual</td>
</tr>
<tr>
<td></td>
<td>Rent $4,800,000</td>
</tr>
<tr>
<td>Rents (General Fund)</td>
<td>State</td>
</tr>
<tr>
<td></td>
<td>Maintenance $5,500,000</td>
</tr>
<tr>
<td>Maintenance Services (DGS)</td>
<td>Los Angeles County (24%) $1,150,000</td>
</tr>
<tr>
<td>Private Contractors</td>
<td></td>
</tr>
<tr>
<td>Los Angeles County (24%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Property Management (Staff) $2,000,000</td>
</tr>
<tr>
<td>Annual Total Benefits:</td>
<td>Annual Total Costs: $13,500,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### The Baseline Analysis Period Reported Yearly w/o Regulations:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BENEFITS</th>
<th>COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>$13.50m</td>
<td>$13.50m</td>
</tr>
<tr>
<td>16/17</td>
<td>$13.70m</td>
<td>$13.70m</td>
</tr>
<tr>
<td>17/18</td>
<td>$13.90m</td>
<td>$13.90m</td>
</tr>
<tr>
<td>18/19</td>
<td>$14.20m</td>
<td>$14.20m</td>
</tr>
<tr>
<td>19/20</td>
<td>$14.50m</td>
<td>$14.50m</td>
</tr>
</tbody>
</table>
As of March 2012, Caltrans estimated that the market value of the SR-710 parcels was $279 million with single family and multi-family residential parcels comprising $237 million of the estimated market value.

<table>
<thead>
<tr>
<th>Property Type</th>
<th>City</th>
<th>Units</th>
<th>TOTAL all Units</th>
<th>Avg. per unit value, 2012 Audit*</th>
<th>TOTAL Est. Values, 2012 Audit*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFR</td>
<td>Pasadena</td>
<td>90</td>
<td></td>
<td>1,000,000.00</td>
<td>90,000,000</td>
</tr>
<tr>
<td></td>
<td>South Pasadena</td>
<td>62</td>
<td></td>
<td>737,000</td>
<td>45,694,000</td>
</tr>
<tr>
<td></td>
<td>Los Angeles</td>
<td>205</td>
<td></td>
<td>292,000</td>
<td>59,860,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>357</td>
<td></td>
<td>$195,554,000</td>
<td></td>
</tr>
<tr>
<td>Multi</td>
<td>Pasadena</td>
<td>11</td>
<td></td>
<td>2,314,000.00</td>
<td>25,454,000</td>
</tr>
<tr>
<td></td>
<td>South Pasadena</td>
<td>11</td>
<td></td>
<td>900,000</td>
<td>9,900,000</td>
</tr>
<tr>
<td></td>
<td>Los Angeles</td>
<td>19</td>
<td></td>
<td>316,000</td>
<td>6,004,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>41</td>
<td></td>
<td>$41,358,000</td>
<td></td>
</tr>
<tr>
<td>Total Residential</td>
<td>398</td>
<td></td>
<td></td>
<td>$236,912,000</td>
<td></td>
</tr>
</tbody>
</table>

* Bureau of State Audits Report 2011-120, August 2012

Construct an analysis period:
30 year analysis period

The current schedule has the ASP regulations effective in mid 2015. The early escrow close date is in 2016 for the non-historic properties in Phase 1 and later in 2016 for the historic, phase 2 and phase 3 properties. Based on this, the analysis will assume no Roberti properties will be sold in the 2014/15 fiscal year. The first five years of the analysis period are for initial property sales and double escrow sales and the last 25 years are for the remaining subsequent sales.

Per the 2012 audit, there are 398 single family residences and multi-family residences to be sold.
Determine the universe of properties to be sold for the initial sales including the double escrow sales and the subsequent sales.

- Per the 2012 Audit, there are 398 residential properties to be sold: 357 single family properties and 41 multi-family parcels.
- Identify FMV for the properties listed above.
  - In 2012, the estimated market value of the residential property was $237 million. Home values in this vicinity are predicted on Trulia and Zillow to increase 20% by the end of 2014 from 2012. The 2014 value is estimated to be $286 million. In addition, they are estimated to go up 5% per year for the rest of the analysis period. A 5% increase in rent was also assumed for this economic analysis.
- Identify properties that may be purchased by occupants with low or moderate income at an affordable price, housing related private and public entities at a reasonable price and others at a FMV price. Alternatively, develop a methodology for estimating what proportion of the properties will be sold at affordable prices.
  - Assume 100 single family properties will sell at an affordable price. (Assume approximately half of properties will be offered at an affordable price and approximately half of those will sell at an affordable price.)
    1. Pasadena- 25
    2. So. Pasadena- 18
    3. Los Angeles- 57
  - Assume all 41 multi-family homes will to housing-related public and private entities at a reasonable price.
  - Assume housing related entities will purchase 45 single family homes that are not wanted by current tenants. These include some boarded up properties and other fixer uppers, in addition to properties that can be used as “cluster housing”.
  - Assume the remaining properties will sell at FMV. Per the 2012 audit: 398-100-41- 45=212 single family properties. Of these 212, approximately 30% will sell to current tenants which will utilize the double escrow allowed in the regulations. 30% of 212= 64 homes. 212-64= 148 properties will have their initial sale at FMV.
    1. Pasadena- 38
    2. So. Pasadena- 25
    3. Los Angeles- 85
  - Total properties that sell to housing-related public and private entities at a reasonable price. 41+64 +45= 150
    1. Pasadena- 39
    2. So. Pasadena- 39
    3. Los Angeles- 72
Although 58 properties were rented at an affordable price in 2012 when the audit was completed, that number has increased to approximately 175 with the new affordable rent regulations.

Of the 460 total number of parcels- 398 are single and multifamily properties; 48 are unimproved and vacant so can be sold outside the Roberti Regulations, and the remaining 14 are either unimproved or have no lessee. These 14 properties are assumed to sell at FMV for ~$ 10 million in 2014 dollars.

Breakdown of Single Family and Multi Family Properties Sold at an Affordable Price, Reasonable Price, and at Fair Market Value

<table>
<thead>
<tr>
<th>Fiscal YR</th>
<th>Total number of residential properties sold</th>
<th>Total number of Affordable properties sold</th>
<th>Total number of Reasonable properties sold</th>
<th>Total number of Fair Market Value residential properties sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>48</td>
<td>11</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>16/17</td>
<td>71</td>
<td>19</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>17/18</td>
<td>89</td>
<td>23</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>18/19</td>
<td>90</td>
<td>23</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>19/20</td>
<td>100</td>
<td>24</td>
<td>39</td>
<td>37</td>
</tr>
<tr>
<td>Totals</td>
<td>398</td>
<td>100</td>
<td>150</td>
<td>148</td>
</tr>
</tbody>
</table>

Develop affordable and reasonable prices for the properties above.

- Per the 2012 audit, the average price (assume to be FMV) for Single family parcels is:
  - Pasadena- $1 million
  - So. Pasadena- $737,000
  - Los Angeles- $292,000

- Per the 2012 audit, the average price for Multi-family residential parcels is:
  - Pasadena- $2.3 million
  - So. Pasadena- $900,000
  - Los Angeles- $316,000

Home values in this vicinity are predicted to increase 20% by the end of 2014 from 2012.

- Single family parcels
  - Pasadena- $1.2 million
  - So. Pasadena- $885,000
  - Los Angeles- $350,000

- Multi-family homes
Per 2012 Audit, assume the purchase price for a single family property sold at an affordable price is 17% of FMV. The price in 2014 is estimated to be:

- **Pasadena**
  - 25 homes
  - $204,000
- **So. Pasadena**
  - 18 homes
  - $150,000
- **Los Angeles**
  - 57 homes
  - $60,000

Assume the purchase price for a property sold at a reasonable price is 60% of FMV. The actual value will be determined through a request for proposal. One requirement is that the value must be greater than the department paid for the property originally. The assumed 60% of FMV was based on the advice and expertise of employees in the Division of Right of Way.

The price in 2014 is estimated to be:

- **Pasadena**
  - $1.68m MF
  - $720,000 SF
- **So. Pasadena**
  - $660,000 MF
  - $530,000 SF
- **Los Angeles**
  - $230,000 MF
  - $210,000 SF

Although the home prices increased 20% between 2012 and 2014 (10% per year), this analysis assumes home prices and rents will increase 5% per year from 2015/16, based on previous sales in the last 30 years.

For this analysis, we are assuming 30% of the original properties assumed to sell at FMV are from the current tenants and will be sold concurrently from the Housing Related Authorities through the double escrow process described in the regulation. Double escrow is estimated to affect 64 single family properties.
Discuss the Benefits and Costs:

First 5 year analysis period includes initial sales and double escrow sales

<table>
<thead>
<tr>
<th>Benefits:</th>
<th>Costs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>Individual</td>
</tr>
<tr>
<td>Disposable Income</td>
<td>Mortgage $37,500,000</td>
</tr>
<tr>
<td>Relocation Assistance</td>
<td>Rent $15,600,000</td>
</tr>
<tr>
<td>Property Management/Sales employees</td>
<td>$24,000,000</td>
</tr>
<tr>
<td>STATE</td>
<td>STATE</td>
</tr>
<tr>
<td>Property Sales Proceeds to SHA</td>
<td>Property Sales (Staff) $15,000,000</td>
</tr>
<tr>
<td>Rent (CA Gen.Fund)</td>
<td>$15,600,000</td>
</tr>
<tr>
<td>Property Sales Proceeds to Affordable Housing Trust Account from Subsequent Sales</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Property Sales Proceeds to Affordable Housing Related Entities from Subsequent Sales</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Maintenance Services (DGS)</td>
<td>Relocation Assistance $2,500,000</td>
</tr>
<tr>
<td>Private Contractors</td>
<td>Maintenance Services $12,600,000</td>
</tr>
<tr>
<td>Los Angeles County (24%)</td>
<td>Los Angeles County (Property Tax Assessment) $6,000,000</td>
</tr>
<tr>
<td>Total Benefits: $310,000,000</td>
<td>Total Costs: $100,000,000</td>
</tr>
</tbody>
</table>
Costs
As shown in the chart on the prior page, the total costs for the Regulation for the five year analysis period is estimated to be $100 million dollars. This includes:
• Maintenance services are estimated to be $12.6 million.
• The property management staff is estimated to cost approximately $7.5 million.
• To sell the properties, it is estimated to be $15 million.
• The relocation assistance Caltrans pays is estimated to be $2.5 million.
• The 24% the State pays to LA County is $3.7 million.
• Mortgage payments are estimated to be $37.5 million.
• The total rent paid by individuals is estimated to be $15.6 million.

Another cost is to the California General Fund which receives the rent money. The general fund will not receive the $4.8 million per year once the properties sell.

Benefits
As shown in the chart on the prior page, for the five year analysis period, the total statewide benefit is estimated to be $300 million. Included in this total is:
• Property Sales paid to the State Highway Account are estimated to be $226.5 million.
• Amount paid to the Affordable Housing Trust Account is estimated to be $10 million.
• Amount paid to the Housing Related Entities is estimated to be $10 million.
• Total rent paid to the General Fund is estimated to be $15.6 million.
• Total payment to DGS for maintenance services is $9.6 million.
• Disposable income for individuals is estimated to be $1.4 million.
• Relocation assistance to individuals is estimated to be $2.5 million.
• Maintenance services paid to the locals and others is $3.0 million.
• Property tax assessment and 24% paid to the LA County is estimated to be $10 million.
• Salaries paid for property management/sales are estimated to be $24 million.

The benefits and costs, with the regulations, broken down by year are shown in the following chart.

<table>
<thead>
<tr>
<th>The Five Year Period Reported with Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>15/16</td>
</tr>
<tr>
<td>16/17</td>
</tr>
<tr>
<td>17/18</td>
</tr>
<tr>
<td>18/19</td>
</tr>
<tr>
<td>19/20</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
The first five year difference between the benefits and costs with and without the regulations are shown in the following chart.

<table>
<thead>
<tr>
<th>Year</th>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>$31m</td>
<td>$5m</td>
</tr>
<tr>
<td>16/17</td>
<td>$41m</td>
<td>$6m</td>
</tr>
<tr>
<td>17/18</td>
<td>$50m</td>
<td>$5m</td>
</tr>
<tr>
<td>18/19</td>
<td>$58m</td>
<td>$6m</td>
</tr>
<tr>
<td>19/20</td>
<td>$59m</td>
<td>$6m</td>
</tr>
<tr>
<td></td>
<td><strong>$240m</strong></td>
<td><strong>$28m</strong></td>
</tr>
</tbody>
</table>

The remaining 25 years:

The next 25 years are for the remaining subsequent sales. It is estimated that all 100 affordable properties will sell during the remaining 25 years and 25% (10) of the remaining 41 multifamily homes and 25% (11) of the 45 single family properties purchased by the HRE’s will sell. The home prices are estimated to increase 5% a year, this is actually slightly less than what has occurred in Los Angeles in the last 30 years.

Costs:

For the remaining 25 years

<table>
<thead>
<tr>
<th>Years</th>
<th>Total Mortgage Payments</th>
<th>Property Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-2024</td>
<td>$100 million</td>
<td>$24 million</td>
</tr>
<tr>
<td>2025-2029</td>
<td>$110 million</td>
<td>$30 million</td>
</tr>
<tr>
<td>2030-2034</td>
<td>$125 million</td>
<td>$34 million</td>
</tr>
<tr>
<td>2035-2039</td>
<td>$130 million</td>
<td>$40 million</td>
</tr>
<tr>
<td>2040-2045</td>
<td>$145 million</td>
<td>$45 million</td>
</tr>
</tbody>
</table>

|       | $610 million            | $170 million   |
Benefits

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Appreciation to Affordable Buyers</th>
<th>Affordable Housing Trust Account</th>
<th>Housing Related Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 - 2024</td>
<td>$7 million</td>
<td>$17 million</td>
<td>$6.5 million</td>
</tr>
<tr>
<td>2025 - 2029</td>
<td>$10 million</td>
<td>$15 million</td>
<td>$13 million</td>
</tr>
<tr>
<td>2030 - 2034</td>
<td>$10 million</td>
<td>$10 million</td>
<td></td>
</tr>
<tr>
<td>2035 - 2039</td>
<td>$23 million</td>
<td>$15 million</td>
<td></td>
</tr>
<tr>
<td>2040 - 2045</td>
<td>$35 million</td>
<td>$20 million</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$85 million</td>
<td>$78 million</td>
<td>$20 million</td>
</tr>
</tbody>
</table>

As seen in the chart above, for the resale of the 25% of the multifamily homes over the next 25 years, the Housing Related Entities would gain $20 million. The Affordable Housing Trust would gain $78 million for the resale of the affordable houses and the affordable property owners would gain $85 million. The total benefit is estimated to be $185 million.

Macroeconomic Impacts

The economic impact method and approach, including the underlying assumptions the agency used and the rationale and basis for those assumptions.

The economic impact assessment was derived using regional economic multipliers (RIMSII, Type II Output) to estimate employment, output, and value added from changes in disposable income due to the sale of surplus parcels of residential real property owned by Caltrans. Also, State law requires the proceeds from the initial sale of surplus properties by Caltrans be used to fund transportation infrastructure investments in the immediate vicinity of the affected communities. The economic impacts from these investments are evaluated using an imbedded input-output model to the Transportation Economic Impact Model (TREDIS), providing employment, output and value added effects. Changes in disposable incomes result from the purchase of properties at an affordable price occupied by the current tenant, and the difference between the rent paid by the occupant and the estimated mortgage payment after purchase. Change in disposable household income also includes differences in estimated qualifying income necessary to rent FMV parcels and the estimated qualifying income required to purchase the same parcel at FMV. Historically, Caltrans has rented the parcels, including parcels that we estimate will sell for an affordable or reasonable price, well below comparable rates in the surrounding area. Below is a list of the assumptions used to complete the economic impact assessment and the Rationale and Basis.
Change in disposable income from the purchase of properties at an **affordable price**

**Assumptions:**

- One hundred single family parcels would be sold at an affordable price to existing tenants.
- Forty-one multi-family parcels and 109 single family parcels would be sold to public/private housing authorities at a reasonable price.
- Existing rent is based on the average rent paid as described in the California State Auditor, August 2012 Report.
- Rent was adjusted to reflect the affordable, reasonable and FMV prices and the average rent established from the California State Auditor, August 2012 Report.
- Values for properties purchased at affordable and at FMV prices was determined by the 2012 Audit. The 2012 Audit states that the affordable price will be approximately 17% of FMV. The Reasonable Price of 60% of FMV was based on advice and expertise from the Division of Right of Way.
- The Bureau of Labor Statistic reports the average household in Los Angeles County spends 37% of its income on housing.
- Mortgage terms used to establish average mortgage payment: 30 conventional, 10% down payment at 4% interest.
- The number of affordable, reasonable and FMV parcels sold each year were estimated using the five year property sell analysis period.
- Rent to existing tenants was escalated 5% annually.
- Values of parcels were escalated 10% per year from 2012-2014 based on Trulia and Zillow and then 5% each year.
- Mortgage payments were escalated 2% each year to reflect increased property tax payments.

Change in disposable income from the purchase of **FMV parcels**

**Assumptions:**

- 30% of FMV parcels would be purchased by existing tenants and 70% would be purchased by non-tenants.
- Estimated household income from all non-tenants purchasing parcels would fully replace estimated household incomes from previous tenants.
- All other assumptions described above were applied.

Sales of 41 multi-family units were excluded from this analysis because it is assumed that affordable housing organizations would purchase these units, renting them to qualifying households with low and moderate incomes. Caltrans does not expect a significant change in household income in the region from the sale of these parcels.

The specific categories of individuals and business enterprises that would be affected by the proposed major regulation

This analysis assesses the direct impact of renters and purchasers of surplus parcels of residential real property owned by Caltrans from two distinct situations: 1) households currently renting at affordable
rates electing to purchase their parcel at an affordable price, and 2) households renting FMV parcels at
rents significantly under comparable FMV rents replaced by households purchasing these parcels and
have higher incomes necessary to qualify for their purchase. The analysis compares the net difference in
disposable income for each situation to determine the economic impact to the region.

Proceeds from the initial sale of surplus parcels of residential real property owned by Caltrans are to be
used to fund transportation projects in the immediate vicinity of the affected communities. This analysis
uses an input-output model to assess the economic impacts from the annual investment of these funds.
Investment of funds for transportation projects result in direct, indirect and induced employment, output
and value added benefits. Proceeds are applied to the year immediately following sale of properties and
measure the short-term (1-year) impact.

The use of economic multipliers and input-output models provides an assessment of total impacts on the
regional economy. This assessment does not include impacts to individual businesses. The proposed
regulation does not impose direct restrictions or reporting requirements on individual businesses that
would result in a financial burden. Individual business may be indirectly impacted from changes in
disposable incomes.

The money from the subsequent sales will go to the property owners, the Affordable Housing Trust
Account and the Housing Related Entities. Upon the subsequent sale, the difference between the
less than fair market value price and the fair market value at the time of the sale from Caltrans would
be due to the Affordable Housing Trust Account for the affordable property or split with the
Affordable Housing Trust Account and the Housing Related Entity for properties that are purchases
at a reasonable price. The appreciation will be split between the Affordable Housing Trust Account and the
persons or families or Housing Related Entity that purchased the property from Caltrans based on a sliding scale growing 20% each year after the end of the first year of ownership, and
ending after the end of the fifth year at which time the less than fair market value purchaser will get
100% of the net appreciation.

The regulations state that the Affordable Housing Trust Account will be used to carry out any activity
authorized under CalHFA's implementing statutes for the benefit of persons or families of low and
moderate income residing exclusively in the Pasadena, South Pasadena, Alhambra, La Canada
Flintridge, and the 90032 ZIP code areas, including any arrangement for the financing of multifamily
developments, or the purchase of loans made to effectuate the purpose of the Roberti Act. Also included
are any reasonable fees and costs incurred by CalHFA derived from the origination, purchase, or
servicing of any loan under the Affordable Sales Program and all costs, including outside legal fees,
associated with enforcement of the use and resale restrictions.

For the Housing Related Entities that purchase at a reasonable price and split the equity proceeds
with the Affordable Housing Trust Account and receive 100% of the appreciation after 5 years, the
regulations state that the net proceeds paid to housing-related entities shall be used to preserve,
upgrade and expand the supply of affordable housing exclusively in the Pasadena, South Pasadena,
Alhambra, La Canada Flintridge, and the 90032 ZIP code. The reinvestment of these proceeds by the Housing Related Entities is likely to increase economic activity within the region. However, an assessment of these expenditures is constrained by the numerous number of activities that could be undertaken by the Housing Related Entities. For this reason, this assessment is limited to showing the wage effects on consumption by those employed at the Housing Related Entities. The assessment assumes 20 percent of the revenues would be paid in wages to staff at the Housing Related Entities, totaling $2.0 million during the initial five year analysis period and $4.0 million during Year 6 to Year 30. These wages will generate approximately $1.5 million during the initial five year analysis period and $3.0 million during Year 6 to Year 30 in value-added to the economy.

The inputs into the assessment of the economic impact

- Affordable, reasonable, and fair market sales prices and rent.
- Private mortgage insurance (0.052%).
- Property tax (1% initial, 2% following years).
- 5% escalation value used for rent and sales.
- RIMSII Type II Multipliers for LA County (output, employment, and value-added).
- IMPLAN input-output model (TREDIS Transportation Impact Model).

The outputs from the assessment of the economic impact

The money that the state receives from selling the properties per the Roberti Bill, GC 54237.7 is designated to go to the 710 Rehabilitation Account, up to $500,000, then to the State Highway Account to fund projects located in Pasadena, South Pasadena, Alhambra, La Canada, Flintridge, and the 90032 zip code. The economic analysis for the construction investment assumed that all the construction dollars less the $500,000 would be spent the following year.

For the five year analysis period, $260 million dollars would be invested; the output is calculated at $366 million, the total employment sustained or created for the six years is 1823 jobs and the value added is $405 million. Another economic analysis was completed for the disposable income. The total disposable income was calculated at $2 million, the output was approximately $3 million; the employment sustained or created is 19 jobs and the value added $1.7 million.
Economic Impact of Disposable Income

<table>
<thead>
<tr>
<th>REGULATION</th>
<th>Year</th>
<th>Disposable Income</th>
<th>Output</th>
<th>Employment</th>
<th>Value-Added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15/16</td>
<td>$21,655</td>
<td>$27,766</td>
<td>0.2</td>
<td>$16,503</td>
</tr>
<tr>
<td></td>
<td>16/17</td>
<td>$141,988</td>
<td>$182,058</td>
<td>1.2</td>
<td>$108,209</td>
</tr>
<tr>
<td></td>
<td>17/18</td>
<td>$247,471</td>
<td>$317,307</td>
<td>2.1</td>
<td>$188,598</td>
</tr>
<tr>
<td></td>
<td>18/19</td>
<td>$403,664</td>
<td>$517,578</td>
<td>3.4</td>
<td>$307,632</td>
</tr>
<tr>
<td></td>
<td>19/20</td>
<td>$582,754</td>
<td>$747,208</td>
<td>5.0</td>
<td>$444,117</td>
</tr>
<tr>
<td></td>
<td>20/21</td>
<td>$833,023</td>
<td>$1,068,102</td>
<td>7.1</td>
<td>$634,847</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$2,200,000</td>
<td>$2,900,000</td>
<td>19.0</td>
<td>$1,700,000</td>
</tr>
</tbody>
</table>

Economic Impact of the Construction Investment:

<table>
<thead>
<tr>
<th>REGULATION</th>
<th>Year</th>
<th>Construction Investment</th>
<th>Output</th>
<th>Employment</th>
<th>Value-Added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15/16</td>
<td>$25,100,000</td>
<td>$35,300,000</td>
<td>176</td>
<td>$39,100,000</td>
</tr>
<tr>
<td></td>
<td>16/17</td>
<td>$46,400,000</td>
<td>$65,200,000</td>
<td>325</td>
<td>$72,200,000</td>
</tr>
<tr>
<td></td>
<td>17/18</td>
<td>$59,500,000</td>
<td>$83,600,000</td>
<td>417</td>
<td>$92,600,000</td>
</tr>
<tr>
<td></td>
<td>18/19</td>
<td>$63,200,000</td>
<td>$88,800,000</td>
<td>442</td>
<td>$98,400,000</td>
</tr>
<tr>
<td></td>
<td>19/20</td>
<td>$66,200,000</td>
<td>$93,000,000</td>
<td>463</td>
<td>$103,100,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$260,400,000</td>
<td>$365,900,000</td>
<td>1,823</td>
<td>$405,400,000</td>
</tr>
</tbody>
</table>

A regional analysis was applied to the SRIA SR-710 economic impact analysis. The sale of Caltrans homes is expected to have a positive impact to household discretionary income and lead to an increase in sale proceeds. This increase in discretionary income can induce economic activity through home renovation expenses such as hiring contractors, purchasing construction and building materials, permitting fees, and inspections. RIMS II Type II multipliers for LA County aggregate total regional impacts and include direct, indirect, and induced final demand stage economic impacts. Thus, spending wages leads to an induced economic impact.

Government Code 54237.7 requires the sale of home proceeds to be used for transportation purposes in the involved communities. Transportation purposes include, but are not limited to “sound walls, transit and rail capital improvements, bikeways, pedestrian improvements, major street resurfacing,” etc. IMPLAN and TREDIS (input-output economic models) were used to estimate the impact to employment, output, and value added. The amount of regional indirect and induced impacts
depends on the type of transportation project. For example, a transit project is likely to result in a
greater amount of monetary leakage than a roadway pavement project. Transit railcar manufacturers
are likely to be located outside the region; therefore, the proceeds generated from the regional home
sales will be transferred to a company outside the region. Proceeds used for a roadway pavement
project are more likely to be spent within regional businesses to supply the asphalt concrete and
paint needed. Thus, depending on the type of project selected, the circulation of regional money will
vary.

Caltrans estimates the sale of 398 single family and multifamily dwellings will result in a small
amount of ancillary economic gains. Some of these units have deferred maintenance and Caltrans is
required to repair them before placing them on the market. Under California Government Code
54237(b), public agencies that own surplus residential properties must “provide repairs required by
lenders and government housing assistance programs” to make them “decent, safe, and sanitary.”
Pursuant to Section 54237.7 (AB 416, Liu, 2013) of the California Government Code, Caltrans can
spend an annual of $500,000 to repair residential units. This would equate to $2.5 million of indirect
and induced benefits from the sale of surplus residences, assuming the maximum amount is utilized
over five years.

Caltrans recognizes that this requirement would contribute to the retention, creation, and increase in
regional economic conditions such as jobs, output, and value-added. Given the economic tools
available, Caltrans cannot specifically determine the economic impact to individual industries or
stakeholders. However, from an industry perspective, Caltrans estimates the greatest economic
impact will be seen in housing related industries, such as an increase in demand for contractors and
inspectors, housing materials, and permits. Sale proceeds specifically dedicated to fund
transportation projects will vary depending on the type of transportation project selected in the
region. Furthermore, the homes sold to nonprofit housing authorities would continue to offer
affordable housing and charge below market value. Under this assumption, there are few, if any,
economic gains. Caltrans views homes sold to nonprofit housing authorities as a transfer of
responsibilities, benefits, and costs. From a regional outlook, indirect and induced economic
impacts generated from the sale of these homes are minimal when compared to the economy of LA
County, which is estimated to be in the hundreds of billions of dollars. Also, Caltrans estimates the
rental revenue loss to the General Fund would have a minimal impact on the State. The loss in rental
revenue is minimal when compared to the overall total of General Fund revenue and the potential
increase in personal income and economic activity from home sales. California’s General Fund, on
average, collects nearly $100 billion in a given year; this includes personal income, sales and use,
and corporate taxes—approximately 90% of California’s total revenue. Moreover, the $4.8 million
gross loss per year from the sale of homes would be minimized through increased employment
opportunities and goods purchased within the region. Thus, the General Fund would collect
additional tax revenues, minimizing the loss of rental revenue to the State.

Agency’s Interpretation of Economic Impact of the Regulation
On average, the purchase of property at an affordable price by the existing tenants will result in increased disposable income for these households. This is due to favorable purchase prices available to existing tenants and low mortgage interest rates. Because of these circumstances, existing tenants of these parcels realize a lower mortgage payment than what they were paying in rent. This is true even though the State Auditor’s Office found that Caltrans was under charging its tenants by an estimated 43 percent. The increase in disposable income will result in increased economic activity, with corresponding improvements in employment, income and added-value reflected in the findings. The net positive impacts do not include the intangible benefits born by the affected households and the surrounding community.

The sale of parcels at FMV provides the greatest impact on the regional economy. The estimated value of these parcels implies that many existing tenants would not qualify to purchase them. This assumption relies, once again, on the State Auditor’s Office findings that Caltrans has been under charging rents. At fair market prices, qualifying income would be two to three times higher than what is necessary to qualify as a tenant. Tenants who are unable to qualify for the purchase of FMV parcels will be replaced by households earning substantially higher incomes. These higher earning households will inject increased spending in the community, and the region at large.

Lastly, legislation requires that the proceeds from the sale of surplus property be re-invested in transportation infrastructure in the immediate area. Upwards of $250 million in transportation investment will result in direct, indirect and induced jobs, income and value-added being generated to the community.

Alternatives

Alternative 1
The first alternative assumes that the initial five year period remains the same. In the subsequent 25 years, only 50% of the 100 affordable homes sell and the same 25% of the reasonable properties sell.

Cost and Benefit
As with the original alternative, for the first five year period, the statewide benefit is estimated to be $310 million and the statewide cost is estimated to be $100 million. For the subsequent 25 years, the estimated cost including mortgage payments and property tax is $725 million, the estimated benefit to the Affordable Housing Trust Account is $42 million, the affordable property owners is $44 million and the housing related entities is $18 million.

The total 30 year analysis period cost is estimated to be $825 million and the benefit is estimate to be $415 million.

Reason for Rejecting: This alternative assumes only half the affordable properties sell, cutting in half the benefit to the affordable property owners and the benefit to the Affordable Housing Trust Account.
Alternative 2
The second alternative assumes that initial five year period remains the same as the original and alternative 1. In the subsequent 25 year period, it is assumed that 100% of all the affordable and reasonable properties sell as soon as the 100% appreciation is reached, i.e., at 6 years for each property.

Costs and Benefits
As with the original alternative, for the first five year period, the statewide benefit is estimated to be $310 million and the statewide cost is estimated to be $100 million. For the subsequent 25 years, because the assumption is that all the properties sell at year 6 so they get 100% of the appreciation, the estimated cost including mortgage payments and property tax is $910 million, the estimated benefit to the Affordable Housing Trust Account is $78 million, the affordable property owners is $30 million and the housing related entities is $38 million.

The total 30 year analysis period cost is estimated to be $1 billion and the benefit is estimated to be $455 million.

Reason for Rejecting
This alternative reduces the benefits to the affordable property owners because it assumes they sell as soon as they reach 100% of the appreciation but before they get the gains from the 5% increase in property values each year. The cost is higher because the mortgage costs and property taxes go up because all the properties sell.