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August 19, 2015

Irena Asmundson
Chief Economist
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

Dear Ms. Asmundson:

Thank you for your comments dated April 13, 2015, concerning the Affordable Sales Program (ASP) Regulations Standardized Regulatory Impact Assessment (SRIA). The impacts discussed in the SRIA are based on the Affordable Sales Program Regulations posted February 27, 2015. Attached is the SRIA dated May 28, 2015, Form 399 and SRIA summary.

Following are the comments the California Department of Transportation (Caltrans) received from the Department of Finance (DOF) concerning three areas where more analysis was requested, and Caltrans' response to these comments.

DOF Comment #1:

First, the revised 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.

Caltrans Response:

The SRIA now states that the proposed ASP regulations will not cause any competitive advantage or disadvantage for businesses currently doing business within the state nor affect the ability of California businesses to compete with other states by making it more costly to produce goods or services here. It will also not provide any incentive or disincentive for innovation within the state. This information is also found on Form 399 where applicable.

DOF Comment #2:

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 (CalHFA) 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.

Caltrans Response:

The regulations state that the subsequent sales of affordable properties and housing-related private entities will be monitored. With the equity sharing model proposed, we believe the monitoring will be minimal. For the 100 affordable properties, annual monitoring is proposed. This will include an annual property inspection and review of the deed to confirm the property is still inhabited by tenants and all covenants and restrictions are being abided by. For the housing related entities, only the private ones have to be monitored and we anticipate a minimal number of private housing related entities taking participation in this process. The estimate is approximately 4 hours per property, 4 x 110=440 hours, 1/4 of one py, ~ $25,000 per year.

DOF Comment #3:

Third, the SRIA must address the impacts of redirecting sales proceeds towards housing entities and the proposed AHTA 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 State are around $88 million, and the housing-related entities would also receive $30 million.

Caltrans Response:

The additional $85 million given to the AHTA and the $30 million given to the Housing Related Entities (HRE) are expected to have a positive impact on low and moderate income households. The lack of local development data makes it challenging to estimate household financial gains. The reinvestment impact of the $118 million, over 30 years, to local low and mid income households cannot be determined without understanding how agencies will specifically spend the additional money. This level of detail is necessary to estimate how direct, indirect, and induced benefits will accrue through expenditures such as constructing or repairing homes, developing livable communities, or offering low interest loans to potential buyers. Thus, general impact assumptions can be made, but without specific reinvestment details, specific impacts cannot be quantified. Generally, if the additional money was used to build new affordable units in multifamily residences, the local area could receive an additional 300 to 1,000 affordable units depending on the amount of subsidies, tax credits and bond funds available at the time of construction. If the additional money was used to provide individual loans to low or moderate income households, the AHTA and HREs could fund an additional 200 to 400 loans for first-time buyers. If the additional money was used to rehabilitate or repair existing affordable residences, over 1,200 low or moderate income households could potentially receive funding.[1]

A study by the California Department of Housing and Community Development (HCD), *2014 California Affordable Housing Cost Study* and a report by the Center for Housing Policy, *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature (2011),* generalizes that localities may experience positive economic gains if affordable housing is expanded. HCD's study iterates that there are multiple factors that influence economic growth and affordable housing may be a key component. Affordable housing's economic impact on a locality is understood to possibly have a positive economic impact, but both publications cite it is difficult to quantify without a standardized methodology and more research must be conducted to understand the correlation between affordable housing and a local economy. Thus, individuals, businesses, and governments may theoretically benefit from affordable housing, but is not for certain without more information.

Thank you again for your comments. If you have any questions, please contact me at (916) 653-0971, or email at christine.c.inouye@dot.ca.gov.

Sincerely,

CHRISTINE C. INOUYE
Roberti Project Manager

Enclosures

[1] The assumptions are based on residential multifamily project costs from HCD housing programs (2006-2015) and CalHFA housing programs (2012-2015). For building new affordable units in multifamily residences: ($118,000,000/ $118,000 to $383,000 = 1,000 to 300). For individual loans to low or moderate income households: ($118,000,000/ $290,000 to $575,000 = 400 to 200). For rehabilitation or repair existing affordable residences: ($118,000,000/ $95,000 or less = 1,200 or more). Assumptions consider growth in median household income and increasing consumer costs over 30 years based on Department of Finance historical data.