Standardized Regulatory Impact Assessment (SRIA)

Proposed Affordable Sales Program Regulation

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 for the Draft Regulations released on May 30, 2014. Three more public hearings were held for the Draft Regulations released on February 27, 2015 on April 20 and 21, 2015 and May 12, 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, 2104. News releases were also distributed February 27, 2015, announcing the public written comment period open through April 13, 2015.

- 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 SR-710 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.

There are five alternatives presented in the Environmental Impact Report for the SR-710 North gap closure project. The Final Environmental Impact Report is scheduled to be completed in 2016. Only the tunnel alternative affects the property sales described in the Affordable Sales Program regulations. For this Economic Impact Analysis, because the FEIR is scheduled to be completed in 2016, it is assumed that the vast majority of the parcels will be able to sell regardless of which alternative is selected. Although many of the parcels may need subsurface easements if the tunnel alternative is selected, the effect on the Fair Market Price is estimated to be minimal, due to the subsurface easement being so deep below the surface. This information was provided by the Right of Way Division in District 7.

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 five 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 $315 million and the statewide cost is estimated to be $100 million for the first five year period.

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 be used for

affordable housing for the State, 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 2012 Audit and Division of Right of Way:

- 460 total number of parcels. 48 are unimproved and vacant.
- 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):					
Benefits:			**Costs:**		
			Individual		
Property Management Employees(salaries)	$ 2,000,000		Rent	$ 4,800,000	
			State		
Rents (General Fund)	$ 4,800,000		Maintenance Services	$ 5,500,000	
Maintenance Services (DGS)	$ 4,125,000		Los Angeles County (24%)	$ 1,150,000	
Private Contractors	$ 1,375,000				
Los Angeles County (24%)	$ 1,150,000		Property Management (Staff)	$ 2,000,000	
Annual Total Benefits:	$ 13,500,000		**Annual Total Costs:**	$ 13,500,000	

The Baseline Analysis Period Reported Yearly w/o Regulations:					
YEAR		BENEFITS			COSTS
15/16		$13.50m			$13.50m
16/17		$13.70m			$13.70m
17/18		$13.90m			$13.90m
18/19		$14.20m			$14.20m
19/20		$14.50m			$14.50m

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.

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

*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 fall 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 sell 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- 30
        2. So. Pasadena- 18
        3. Los Angeles- 100

- Total estimated properties that sell to housing-related public and private entities at a reasonable price. 41+64+45=150
  1. Pasadena- 46
  2. So. Pasadena- 37
  3. Los Angeles- 67

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 vacant. 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

Fiscal YR	Total number of residential properties sold	Total number of Affordable properties sold	Total number of Reasonable properties sold	Total number of Fair Market Value residential properties sold
15/16	42	8	17	17
16/17	68	19	23	26
17/18	88	23	32	33
18/19	90	23	32	35
19/20	110	27	46	37
Totals	398	100	150	148

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– $900,00
  - 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
  - Pasadena– $2.8 million
  - So. Pasadena–$1.1 million
  - Los Angeles–$380,000

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 five year analysis period- includes initial sales and double escrow sales

Benefits:			**Costs:**		
Individuals			Individual		
			Mortgage	$ 31,000,000	
Disposable Income	$1,400,000		Rent	$ 15,600,000	
Relocation Assistance	$2,500,000				
Property Management/Sales employees	$32,700,000				
STATE			STATE		
Property Sales Proceeds to SHA	$218,000,000		Property Sales (Staff)	$25,200,000	
Rent (CA Gen.Fund)	$15,600,000				
Property Sales Proceeds to the AFTA from Subsequent Sales	$10,000,000				
Property Sales Proceeds to Affordable Housing Related Entities from Subsequent Sales	$10,000,000				
Maintenance Services (DGS)	$9,600,000		Relocation Assistance	$2,500,000	
			Property Management (Staff)	$7,500,000	
Private Contractors	$3,000,000		Maintenance Services	$12,600,000	
Los Angeles County (24%)	$3,800,000				
Los Angeles County (Property Tax Assessment)	$7,000,000		Los Angeles County (24%)	$3,700,000	
Total Benefits:	**$315,000,000**		**Total Costs:**	**$100,000,000**	

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 $20 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 $31 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 $315 million. Included in this total is:

- Property Sales paid to the State Highway Account are estimated to be $218 million.
- Amount paid to the Affordable Housing Trust Account (AHTA) from subsequent sales 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 sales are estimated to be $25 million.
- Salaries paid for property management is estimated to be $7.5 million

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.

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 inconsequential. 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 less than ¼ of one py, ~$25,000 per year.

Costs:

For the remaining 25 years

Years	Total Mortgage Payments	Property Taxes
2020-2024	$100 million	$24 million
2025-2029	$110 million	$30 million
2030-2034	$125 million	$34million
2035-2039	$130 million	$40 million
2040-2045	$145 million	$45 million
	$610 million	$173 million

Benefits

Years	Net Appreciation to Affordable Buyers	Net equity to AHTA	Housing Related Entities
2020 - 2024	$7 million	$17 million	$6.5 million
2025 - 2029	$10 million	$15 million	$13 million
2030 – 2034	$10 million	$10 million	
2035 - 2039	$23 million	$15 million	
2040 - 2045	$35 million	$20 million	
Total	$85 million	$77 million	$19.5 million

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 AHTA would gain $77 million for the resale of the affordable houses and the affordable property owners would gain $85 million. The total benefit is estimated to be $181.5 million.

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 service here. It will also not provide any incentive or disincentive for innovation within the state.

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 <u>affordable price</u>

<u>Assumptions:</u>

- 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 AHTA 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 AHTA for the affordable property or split with the AHTA and the Housing Related Entity for properties that are purchases at a reasonable price. The appreciation will be split between the AHTA 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 if any monies are given to CalHFA, that they will use the money 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 AHTA 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 AHTA is estimated to receive $85 million over 30 years from the subsequent sales and the Housing Related Entities are estimated to receive $30 million over 30 years. Currently, the Housing Authority of the County of Los Angeles, for the 2015/2016 annual plan has a financial resource estimate of $266 million, the additional estimated $4 million from the AHTA and the HRE's would add an additional ~1.5% money to the affordable housing financial resources.

The additional $85 million given to the AHTA and $30 million given to the Housing Related Entities 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, the impacts cannot be quantified.

A study by the California Department of Housing and Community Development, CA Department of Housing and Community Development, CA Tax Credit Allocation Committee, CA Housing Finance Agency, et. al.(2014). *2014 California Affordable Housing Cost Study* and a report by the Center for Housing Policy, Center for Housing Policy. (2011). *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature* 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.

Individual Benefits

HCD's Study finds that affordable housing may result in an increase of disposable income. This is because a decrease in housing costs frees up money to spend on other expenditures (p. 14). Thus, this may lead to greater household utility—the increase in gratification from receiving additional goods or services.

Moreover, HCD's Study finds that there is no definitive relationship between affordable housing projects and property values. These two independent variables may be dependent on a confluence of factors such as prevailing wage laws, type of housing project, location, etc.

Business and Government Benefits

According to HCD's Study, an increased labor pool may occur if a greater amount of new affordable housing options are provided for the region. HCD's Study finds that "affordable housing can affect an employer's ability to attract and retain employees and thus have implications for regional economic competitiveness (p. 16)." Affordable housing can allow households to stay in a locality longer than they could normally afford if they paid fair market value; therefore, this may help with expanding the labor pool and employment retention.

Both publications state that government entities may incur greater financial loss if no or minimal affordable housing is offered in a locality. These higher costs include infrastructure maintenance, debris removal, record keeping, and social programs. HCD's Study finds that reducing homelessness through affordable housing may reduce social program costs such as California's Project 50. Project 50 lowered incarceration and medical services costs by $1.2 million in the initial year of the program. The Center for Housing Policy report also finds that affordable housing decreases business and municipality costs by decreasing the amount of foreclosures and actually results in additional taxes and revenues.

For these reasons, we have limited this assessment to only show 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

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

Economic Impact of the Construction Investment:

REGULATION-				
Year	Construction Investment	Output	Employment	Value-Added
15/16				
16/17	$ 25,100,000	$ 35,300,000	176	$ 39,100,000
17/18	$ 46,400,000	$ 65,200,000	325	$ 72,200,000
18/19	$ 59,500,000	$ 83,600,000	417	$ 92,600,000
19/20	$ 63,200,000	$ 88,800,000	442	$ 98,400,000
20/21	$ 66,200,000	$ 93,000,000	463	$ 103,100,000
Total	$ 260,400,000	$ 365,900,000	1,823	$ 405,400,000

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 initial 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 initial 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 $315 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 AHTA 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 AHTA.

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 six 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 $315 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 six so they get 100% of the appreciation, the estimated cost including mortgage payments and property tax is $910 million, the estimated benefit to the AHTA 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.