INITIAL STATEMENT OF REASONS

INTRODUCTION:

Caltrans acquires real property necessary for state transportation purposes, and must, by law, attempt to dispose of properties no longer required for those purposes (Streets and Highways Code section 118.6). Government Code sections 54235 through 54238.7 (the "Roberti Act") sets forth the priorities and procedures for disposing of surplus residential property for State Route 710 (SR 710) in Los Angeles County.

PROBLEM STATEMENT:

In 1979, the Legislature reaffirmed its findings that there exists within the urban and rural areas of the state a serious shortage of decent, safe, and sanitary housing which persons and families of low or moderate income can afford, and consequently a pressing and urgent need for the preservation and expansion of the low and moderate income housing supply. The Legislature further reaffirmed its findings that highway and other state activities have contributed to the severe shortage of such housing, and that provision of decent housing for all Californians is a state goal of the highest priority. The Legislature stated that actions of state agencies including the sales of surplus residential properties which result in the loss of decent and affordable housing for persons and families of low or moderate income is contrary to state housing, urban development, and environmental policies and is a significant environmental effect, within the meaning of Article XIX of the California Constitution, which will be mitigated by the sale of surplus residential property pursuant to the provisions of Government Code sections 54235 through 54238.7.

The Los Angeles Superior Court declared in *City of South Pasadena v. The California Department of Transportation* (Super. Ct. Los Angeles County, 2007, No. BC331628) that legal title to all subject to the provisions of the "Roberti Act" State Route 710 (SR 710) parcels of real property shall remain vested in Caltrans until adoption of an appropriate regulation under the Administrative Procedures Act for their disposal pursuant to Government Code sections 54235 through 54238.7.

Adoption of the proposed regulation will allow Caltrans to dispose of the surplus parcels of 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. Without this proposed regulation, Caltrans is unable to proceed with disposal of the real property.

BENEFITS:

The Legislature stated that the sale of surplus residential property pursuant to the provisions of the Roberti Act will directly serve an important public purpose. Accordingly, the Legislature intends by the Roberti Act to preserve, upgrade, and expand the supply of housing available to persons and families of low or moderate income. (Government Code section 54235.) The proposed regulation will increase the number of low and moderate income homeowners by allowing qualified tenants and occupants to purchase homes on the basis of affordability under the program. The proposed regulation will provide a non-monetary benefit by setting the guidelines and timelines applicable, which promotes openness and transparency in business and government.

PURPOSE OF THE PROPOSED REGULATION:

The proposed regulation sets forth the procedures that will allow the Department to dispose of surplus residential properties originally acquired for the SR 710 extension in the cities of Los Angeles, South Pasadena, and Pasadena in accordance with the Roberti Act. The proposed regulation 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 regulation 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.

NECESSITY:

The Los Angeles Superior Court declared in *City of South Pasadena v. The California Department of Transportation* (Super. Ct. Los Angeles County, 2007, No. BC331628) that legal title to all State Route 710 (SR 710) parcels of real property shall remain vested in Caltrans until adoption of an appropriate regulation under the Administrative Procedures Act for their disposal pursuant to Government Code sections 54235 through 54238.7.

The proposed regulation is intended to allow Caltrans to dispose of such residential properties in a manner that will preserve, upgrade, and expand the supply of housing available to affected persons and families of low or moderate income.

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. Caltrans published proposed regulations for the Affordable Sales Program on May 30, 2014 and the written comment period ended September 2, 2014. Three public hearings were held 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. News releases announcing

the public written comment period opening and additional news releases announcing the extension of the comment period were distributed. Additionally ads were posted in three newspapers to increase public awareness of the proposed regulation, the written comment period and the public hearings. Caltrans mailed a package to all tenants and other interested parties which contained the Notice of Proposed Rulemaking. All comments and recommendations received were reviewed, evaluated, and, as deemed appropriate, incorporated into this newly proposed regulation. All comments relied upon will be included in the rulemaking record and made available. Recommendations from California Housing and Finance Agency (CalHFA) and Housing and Community Development (HCD), experts in the affordable housing community, were also reviewed, evaluated, and as deemed appropriate, incorporated into this newly proposed regulation.

The regulation will:

Section 1475 – Implement Senate Bill 86 known as the "Roberti Act". This section defines the purpose and scope of the proposed "Affordable Sales Program" regulation.

Section 1476 – Define the terms used in the proposed regulation. This section is needed to provide additional detail and further clarify certain words or phrases as they were used in the "Roberti Act" and as they are used in the proposed regulation.

Section 1477 – Specify the order of priority for the Conditional Offer Prior to Sale. This section is needed to make specific Government Code sections 54237(a), (b), and (d). The priority and conditions of sale are located in more than one section of the "Roberti Act". This section makes clear what conditions are associated with each priority. Government code section 54237.3 provides the option for a purchaser pursuant to paragraphs (2) and (3) of subdivision (a) of Section 54237 to opt to purchase the property in an "as is" condition.

Section 1478 – Set forth the criteria for Conditions of Offer Prior to Sale. This section is needed to implement, interpret, and make specific the conditions for sale of residential properties including sales price determination, repair requirements, occupancy requirements, and restrictions properties sold at less than fair market value will contain. The "Roberti Act" provides for the sale of properties at fair market value, affordable price, or reasonable price. There will be no affordable housing terms, conditions, or restrictions for properties sold at fair market value. For property sold at less than fair market value either affordable price or reasonable price, the proposed regulation contains terms, conditions, and restrictions as recommended by the Department of Housing and Community Development and the California Housing Finance Agency. Repairs required by lenders per Government Code section 54237(b) are clarified in this section.

Section 1479 – Set forth the notices for Conditional Offer Prior to Sale. This section is needed to make specific who will receive and how written notice of the Conditional Offer Prior to Sale shall be delivered. The Conditional Offer prior to Sale will be mailed by certified mail and publication of notice will be for three successive times as per Government Code section 6061.3. Mailing and publication will be simultaneous to all potentially eligible buyers.

Section 1480 – Set forth the term of the Conditional Offer Prior to Sale. This section is needed to make specific the term the Conditional Offer Prior to Sale shall remain open. One hundred twenty calendars days from the postmarked date of mailing as recommended by the Department of Housing and Community Development and the California Housing Finance Agency has been identified for potential affordable buyers to collect necessary documentation related to eligibility to purchase.

Section 1481 – Set forth the terms of acceptance for the Conditional Offer Prior to Sale. This section is needed to make specific the method of acceptance of the Conditional Offer Prior to Sale. The acceptance for the Conditional Offer Prior to Sale must be postmarked no later than one hundred twenty calendar days from the postmarked date of mailing of the notice of Conditional Offer Prior to Sale or final date of publication, as applicable.

Section 1482 – Specify the burden is on the prospective buyer to show eligibility for purchase at an affordable price. Required documentation to provide evidence in income, tenure, real property ownership interest, and household size are made specific.

Section 1483 – Provide grounds for denial based on insufficiency or incompleteness of response to Conditional Offer Prior to Sale. This section is needed to define response time for receipt of incomplete or insufficient financial documentation and required action. Department will notify by certified mail within thirty calendar days of receipt what documentation is incomplete or insufficient for a determination of eligibility to purchase at an affordable price. This section provides the potential buyer an additional sixty days to provide the requested documentation. Prospective buyers have a maximum of two hundred fifty calendar days to respond with complete and sufficient documentation.

Section 1484 – Specify that failure to respond will be deemed a rejection of the Conditional Offer Prior to Sale. This section is needed to define the time period for rejection due to lack of response. The Department will notify respondents of rejection.

Section 1485 – Establish the eligibility for buyers and sets forth priority for purchase. This section is needed to define the Department's review of documentation and define the priority for more than one equally eligible respondent. The postmarked date will be used to rank respondents irrespective of supplied documentation completeness or sufficiency.

Section 1486 – Specify the response time for buyers for entering into a Contract for Sale. This section is needed to define the term for acceptance of a Contract for Sale. This section also makes clear the costs for the transaction to be paid by the Department and the costs to be paid by the Buyer for affordable, reasonable, and fair market value sales. This section also provides for the Department to reimburse the Buyer up to $3,000 for an agent of their choice to facilitate and advise on the purchase transaction allowing the prospective buyer to have a third party review the transaction thus increasing the ability of an affordable buyer to have disinterested party review and advice. California Transportation Commission approval of the property sales may be required to finalize each transaction.

Section 1487 – Specify time for close of escrow and the Department's authority to extend. This section is needed to define the time period allowed for close of escrow and the Department's discretion to grant an extension. One hundred twenty days is a longer escrow period than standard in the industry and through consultation with CalHFA, determined to be sufficient for an affordable buyer to obtain financing.

Section 1488 – Provide the duty of the buyer upon noncompliance. This section is needed to identify specific noncompliance provisions the Department may pursue due to buyer noncompliance and define the payment amount.

Section 1489 – Specify the monitoring requirement to ensure compliance with the terms of sale. This section is needed to ensure such properties remain available to persons and families of low or moderate income and compliance with the restrictions associated with the specific property.

Section 1490 – Specify no lender may gain financially from the surplus residential property other than the mortgage lender.

Section 1491 – Specify the role California Housing and Finance Agency (CalHFA) will provide in developing and administering the proposed "Affordable Sales Program" and identify how the Affordable Housing Trust Account, to be established by

CalHFA, will be used in furthering affordable housing in the Pasadena, South Pasadena, Alhambra, LaCanada Flintridge, and 90032 postal ZIP code.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDY, REPORTS, OR DOCUMENTS

Caltrans relied upon the Bureau of State Audits, California State Auditor Report 2011-12, issued August 16, 2012, to quantify the economic impact of the proposed regulation on local government. Caltrans did not rely upon any other technical, theoretical, or empirical studies, reports or documents in proposing the adoption of this regulation.

STANDARDIZED REGULATORY IMPACT ASSESSMENT (Government Code Section 11346.2(b)(2))

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 ASP regulations set forth the policy, process, and procedures that will allow Caltrans to dispose of surplus residential properties in accordance with the Roberti Act. 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.

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.

- 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 (attached) 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.

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 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 spring 2015. The number and specific properties for this Phase is 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 is planned for circulation in February 2015. The Final Environmental Impact Report is planned to be complete in 2016.

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 one year beyond, for a total of 6 years. From the benefit-cost analysis, the statewide benefit is estimated to be $335 million and the statewide cost is estimated to be $105 million for the six year analysis period. See chart labeled Regulation Total on Page 10.

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 six year analysis period is $85 million and the statewide cost is $85 million. See chart labeled BASELINE (w/o Regulations) on the next page.

Per a 2012 Audit and Division of Right of Way:

- 398 single family residences and multifamily residence are owned by Caltrans, most are rented.
- CT 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.

BASELINE (w/o Regulations):					
Benefits:			**Costs:**		
Individuals			**Individuals**		
Property Management Employees	$ 2,000,000		Rent	$ 4,800,000	
Caltrans			**Caltrans**		
Rents	$ 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
20/21		$14.70m			$14.70m
Total		**$84.50m**			**$84.50m**

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:
5 years plus 1

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 five year full implementation for property sales and the six year analysis will start in 2015/16.

Per the 2012 audit, there are 398 single family residences and multi-family residences to be sold.

YEAR	NUMBER OF PROPERTIES ESTIMATED TO BE SOLD
2015/16	45
2016/17	75
2017/18	92
2018/19	92
2019/20	94

Determine the universe of properties to be sold.

- Per the 2012 Audit, 398 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 $238 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 50 properties will sell to housing-related public and private entities at a reasonable price. Assume all multi-family homes and nine single family homes, will be spread between cities.
        1. Pasadena- 13
        2. So. Pasadena- 13
        3. Los Angeles- 24

    - Assume the remaining properties will sell at FMV. Per the 2012 audit: 398-100-50=248 single family properties.
        1. Pasadena- 63
        2. So. Pasadena- 42
        3. Los Angeles- 143

Although 58 properties were rented at an affordable price in 2012 when the audit was completed, that number has increased to 157 with the new affordable rent regulations.

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

Fiscal YR	Total number of properties sold	Total number of Affordable properties sold	Total number of Reasonable properties sold	Total number of Fair Market Value properties sold
15/16	45	11	5	29
16/17	75	19	9	47
17/18	92	23	12	57
18/19	92	23	12	57
19/20	94	24	12	58
Totals	398	100	50	248

Breakdown of Properties Sold in Pasadena, South Pasadena and Los Angeles

Fiscal YR	Pasadena Afford-able	Pasadena Reason-able	Pasadena Fair Market Value	South Pasadena Afford-able	South Pasadena Reason-able	South Pasadena Fair Market Value	LA Afford-able	LA Reason-able	LA Fair Market Value
15/16	3	2	7	2	1	5	6	2	17
16/17	4	2	13	4	2	8	11	5	26
17/18	6	3	14	4	3	9	13	6	34
18/19	6	3	14	4	3	10	13	6	33
19/20	6	3	15	4	4	10	14	5	33
Totals	25	13	63	18	13	42	57	24	143

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. The only 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
  - 13 properties–11 MF +2 SF
  - $1.68m MF

    - $720,000 SF
    - Avg. Reasonable Price= $1.6m

- So. Pasadena–
    - 13 properties–11 MF +2 SF
    - $660,000 MF
    - $530,000 SF
    - Avg. Reasonable Price= $640,000
- Los Angeles–
    - 24 properties–19 MF + 5 SF
    - $230,000 MF
    - $210,000 SF
    - Avg. Reasonable. Price= $225,000

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 15 years. Per the Affordable Sales Regulations, for the buyer that purchases at an affordable price and decides to sell their properties, the difference between the original FMV and the original affordable price must be returned to the State. This money will be used for affordable housing in this same area. If the sell occurs within the first five years of original purchase, the buyer that purchases at an affordable price will get 20% of the net appreciation at the start of the second year, increasing 20% per year until attaining the full 100% of the net appreciation at year 5.

For the reasonably priced properties that sell to designated housing authorities, the equity will be split between the state and the designated housing authority. This 50% includes the difference between the original FMV and the original reasonable price, in addition to the net appreciation. This money is expected to be used for affordable housing in the same area. All other housing authorities that purchase at a reasonable price will follow the same criteria as that set for the people that purchase homes at an affordable price.

Relocation Assistance Program- Existing Government Code Sections 54235-54238.7, Surplus Residential Property, provides for limited relocation assistance benefits for existing eligible tenants who cannot afford to purchase their home and have to move because the home is sold to another party. The total estimated cost for the analysis period is $2.5 million dollars.

Discuss the Benefits and Costs:

Regulation Total- 6 year analysis period					
Benefits:			**Costs:**		
Individuals			Individual		
			Mortgage	$ 45,000,000	
Disposable Income	$2,200,000		Rent	$ 15,600,000	
Relocation Assistance	$2,500,000		Closing Costs	$ 1,800,000	
Property Management/Sales employees	$24,000,000				
Caltrans			Caltrans		
Property Sales Proceeds	$262,900,000		Property Sales (Staff)	$16,300,000	
Rent	$15,600,000				
Other:			Relocation Assistance	$2,500,000	
			Property Management (Staff)	$7,900,000	
Maintenance Services (DGS)	$9,600,000		Maintenance Services	$12,600,000	
Private Contractors	$3,000,000				
Los Angeles County (24%)	$3,700,000		Los Angeles County (24%)	$3,700,000	
Los Angeles County (Property Tax Assessment)	$11,500,000				
Historic Property Monitoring (Local)	$1,100,000		Historic Property Monitoring (Local)	$1,100,000	
Total Benefits:	**$335,000,000**		**Total Costs:**	**$105,000,000**	

Costs

As shown in the chart on the prior page, the total costs for the Regulation for the six year analysis period is estimated to be $105 million dollars. This includes:

Caltrans:

- Maintenance services are estimated to reduce from $4.9 million in 15/16 to $0 in 20/21. The total cost to Caltrans is $12.6 million.
- The total paid by Caltrans for historic property monitoring is estimated at $1 million.
- The property management staff is estimated to cost approximately $1.9 million in 15/16, reducing to $375,000 in 20/21. The total cost paid by Caltrans is approximately $7.9 million.
- To sell the properties, it is estimated at $1.6 million in 15/16 increasing to $3.8 million in 18/19. This includes the closing cost. The total cost paid by Caltrans is estimated to be $16.3 million.
- The relocation assistance Caltrans pays is estimated to be $2.5 million.
- The 24% the State pays to LA County drops from $1.3 million in 15/16 to $0 in 20/21. The total cost paid by Caltrans is $3.7 million.

Individuals and Others:

- Mortgage payments are estimated to increase from $1.0 million in 15/16 to $13 million in 20/21. The total cost paid by individuals is estimated to be $45 million.
- The total rent paid by individuals is estimated to be $15.6 million.
- The closing costs paid by buyers is estimated to be $3700 per property (Zillow), this is approximately $1.8 million for the analysis period.

Benefits

As shown in the chart on the prior page, for the six year analysis period, the total statewide benefit is estimated to be $335 million. Included in this total is:

Caltrans:

- Property Sales paid to the state are estimated to be $260 million.
- Total rent paid to the State is estimated to be $15.6 million.

Individuals and Others:

- Disposable income for individuals is estimated to be $2 million.
- Relocation assistance to individuals is estimated to be $2.5 million.
- Maintenance services paid to the locals and others is $15 million.
- Property tax assessment and 24% paid to the LA County is estimated to be $15 million.
- The total paid to the locals for historic property monitoring is estimated at $1 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.

The Analysis Period Reported Yearly with Regulations					
Year		Benefits		Costs	
15/16		$42 m		$18 m	
16/17		$62 m		$19 m	
17/18		$75 m		$19 m	
18/19		$75 m		$19 m	
19/20		$75 m		$19 m	
20/21		$5 m		$11 m	
Total		**$335 m**		**$105 m**	

The yearly difference between the benefits and costs with and without the regulations are shown in the following chart.

The Difference between No Regulations and With Regulations for the Analysis Period Reported Yearly					
Year		Benefits		Costs	
15/16		$ 30 m		$ 4 m	
16/17		$ 60 m		$ 5 m	
17/18		$ 60 m		$ 5 m	
18/19		$ 60 m		$ 5 m	
19/20		$ 60 m		$ 4 m	
20/21		$-10 m		$-3 m	
Total		**$260 m**		**$20 m**	

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 TREDIS Transportation Economic Impact Model, 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 nine 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 <u>FMV</u> parcels

<u>Assumptions:</u>

- 25% of FMV parcels would be purchased by existing tenants and 75% 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 economic impact assessment was carried over six years.

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 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 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 six 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 $17 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 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. 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.

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 instead of 100 properties being sold at an affordable price that an additional 20% will be sold and a total of 120 single family homes will be sold at an affordable price. Caltrans assumes that the number of reasonable priced properties will stay the same, 50. This alternative will reduce the number of homes sold at FMV to 228.

Cost and Benefit

The total benefit for Alternative 1 in the six year analysis period is $320 million and the total cost is $105 million.

Reason for Rejecting: This alternative assumes more properties will sell at an affordable price which is one of the objectives of the Roberti Bill. It does reduce the benefits calculated due to the reduced

number of properties selling at FMV; however, the state would like the regulations to result in more homes being sold at an affordable price.

ALTERNATIVE #1 Benefit and Costs					
Benefits:			**Costs:**		
Individuals			Individuals		
			Mortgage	$ 40,000,000	
Disposable Income	$ 2,600,000		Disposable Income		
Relocation Assistance	$ 2,500,000				
Property Management/Sales employees	$24,000,000		Rent	$ 14,700,000	
Caltrans			Closing Costs	$ 1,500,000	
Property Sales Proceeds	$ 247,800,000		Caltrans		
Rent	$ 14,700,000		Maintenance Services	$ 12,600,000	
Maintenance Services (DGS)	$ 9,600,000		Los Angeles County (24%)	$ 3,500,000	
Private Contractors	$ 3,000,000				
Los Angeles County (24%)	$ 3,500,000		Relocation Assistance	$ 2,500,000	
			Property Management (Staff)	$ 7,900,000	
			Property Sales (Staff)	$ 16,300,000	
Los Angeles County (Property Tax Assessment)	$ 9,100,000				
Historic Property Monitoring (Local)	$ 1,100,000		Historic Property Monitoring (Local)	$ 1,100,000	
Total Benefits:	**$ 320,000,000**		**Total Costs:**	**$105,000,000**	

ALTERNATIVE 1 Output and Value Added				
Year	Disposable Income	Output	Employment	Value-Added
15/16	$ 31,140	$ 39,928	0.3	$ 23,732
16/17	$ 163,370	$ 209,473	1.4	$ 124,504
17/18	$ 293,836	$ 376,757	2.5	$ 223,933
18/19	$ 476,460	$ 610,917	4.1	$ 363,110
19/20	$ 679,519	$ 871,279	5.8	$ 517,861
20/21	$ 945,218	$ 1,211,958	8.0	$ 720,350
Total	$ 2,600,000	$ 3,300,000	22.0	$ 2,000,000

Year	Construction Investment	Output	Employment	Value-Added
15/16				
16/17	$ 25,600,000	$ 36,000,000	179	$ 39,900,000
17/18	$ 46,800,000	$ 65,800,000	328	$ 72,900,000
18/19	$ 60,400,000	$ 84,900,000	423	$ 94,000,000
19/20	$ 64,000,000	$ 89,900,000	448	$ 99,600,000
20/21	$ 66,600,000	$ 93,600,000	466	$ 103,700,000
Total	$ 263,400,000	$ 370,200,000	1,844	$ 410,100,000

Alternative 2

The second alternative assumes only 80 homes will sell at an affordable price, while maintaining 50 homes will sell at a reasonable price. This will increase the number of homes that sell at FMV to 268.

Costs and Benefits

As shown in the chart below, the total benefit for alternative 2 in the six year analysis period is approximately $350 million and the total cost is approximately $105 million.

Reason for Rejecting

Even though this alternative provides the biggest benefit to the state, the ASP regulations are trying to provide as many properties at an affordable price as possible.

ALTERNATIVE #2 Benefits and Costs					
Benefits:			**Costs:**		
Individuals			Individuals		
			Mortgage	$ 50,000,000	
Disposable Income	$ 1,900,000		Disposable Income		
Relocation Assistance	$ 2,500,000				
Property Management/Sales employees	$24,000,000		Rent	$ 15,700,000	
Caltrans			Closing Costs	$ 1,500,000	
Property Sales Proceeds	$ 278,400,000		Caltrans		
Rent	$ 15,700,000		Maintenance Services	$ 12,600,000	
Maintenance Services (DGS)	$ 9,600,000		Los Angeles County (24%)	$ 3,800,000	
Private Contractors	$ 3,000,000		Relocation Assistance	$ 2,500,000	
Los Angeles County (24%)	$ 3,800,000				
			Property Management (Staff)	$ 7,500,000	
			Property Sales (Staff)	$ 16,300,000	
Los Angeles County (Property Tax Assessment)	$10,200,000				
Historic Property Monitoring (Local)	$ 1,100,000		Historic Property Monitoring (Local)	$ 1,100,000	
Total Benefits:	**$ 350,000,000**		**Total Costs:**	**$ 110,000,000**	

ALTERNATIVE 2
Output and Value Added

Year	Disposable Income	Output	Employment	Value-Added
15/16	$ 12,169	$ 15,604	0.1	$ 9,274
16/17	$ 120,607	$ 154,643	1.0	$ 91,915
17/18	$ 201,106	$ 257,858	1.7	$ 153,263
18/19	$ 330,868	$ 424,238	2.8	$ 252,154
19/20	$ 485,990	$ 623,137	4.1	$ 370,373
20/21	$ 720,829	$ 924,246	6.1	$ 549,343
Total	$ 1,900,000	$ 2,400,000	15.9	$ 1,400,000

Year	Construction Investment	Output	Employment	Value-Added
15/16				
16/17	$ 24,700,000	$ 34,700,000	173	$ 38,500,000
17/18	$ 46,000,000	$ 64,600,000	322	$ 71,600,000
18/19	$ 58,500,000	$ 82,200,000	410	$ 91,100,000
19/20	$ 62,500,000	$ 87,800,000	438	$ 97,300,000
20/21	$ 65,600,000	$ 92,200,000	459	$102,100,000
Total	$ 257,300,000	$ 361,500,000	1,801	$400,600,000

Sensitivity Analysis

A sensitivity analysis was completed to see the variation that would occur if all the properties were sold in each category. As shown in the alternatives analysis, the more homes that sell at FMV, the greater the financial benefit to the state; however, the purpose of these regulations is to provide affordable housing.

Sensitivity Analysis		Benefits		Costs
All Properties Sell at Fair Market Value		$370,000,000		$160,000,000
All Properties Sell for an Affordable Price		$117,000,000		$70,000,000
All Properties Sell for a Reasonable Price		$245,000,000		$115,000,000

DEPARTMENT OF FINANCE COMMENTS

January 23, 2015

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

Thank you for submitting the standardized regulatory impact assessment (SRIA), the summary (Form DF-131), and other related documents for the Affordable Sales Program Regulations as required in California Code of Regulations, title 1, section 2002(a)(1). Finance agrees that the proposed regulations meet the major regulations threshold based on the impacts calculated.

The Affordable Sales Program regulations will allow Caltrans to sell roughly 400 excess residential properties from the highway 710 connector program in Southern California. Currently, a mix of affordable renters and market-rate tenants occupies these properties, although in many instances the rates are lower than for comparable properties due to the uncertainty of length of tenure. The rents go in part to the local area government, with the remainder allocated to transportation bond debt repayments, thus lowering General Fund obligations for the state. The underlying statutes direct Caltrans to allocate sales revenue to specified transportation projects in the region. The proposed regulations lay out the order of eligibility, the conditions for sale, and how to calculate prices for qualified buyers. Thus the impacts stem from the revenues the state receives and the benefits the buyers receive if they do not have to pay fair market value. There are also contingencies for the penalties and difference the state receives if the sale conditions are violated in the future.

Finance generally concurs with the methodology used to estimate the annual impacts under the affordable sales program. However, the analysis is incomplete with respect to the impacts on affordable price purchasers and the fiscal impacts.

Caltrans derived estimates of the number of properties that will be sold at an affordable price to qualifying tenants, and proposed safeguards such as a 30-year deed restriction on resale and penalties for noncompliance with sale restrictions (such as rental instead of owner occupancy, or early resale). The estimates rely on the assumptions that tenants will be able to qualify for a mortgage under these conditions, they are able to get mortgage financing, and they choose to purchase the property with the restrictions. However, the 30-year deed restriction and noncompliance penalties that benefit the state impose significant risk on the potential purchaser, and there is a large shift in benefits to the purchaser at that 30-year mark. For example, if there were a change in family situation, or a job opportunity out of the area before 30 years have elapsed, the purchaser would have to repay the state the difference between their purchase price and the fair market value, plus penalties of 6 percent a year over the length of their ownership. After the 30 years have elapsed, the tenant would receive the entire resale value, while the state would receive nothing. These conditions would likely decrease the number of affordable price purchasers, since it would not only discourage potential purchasers, it would make it difficult for banks to offer mortgages.

Writing all the contingencies into the regulation would be unreasonable, but the state does need some safeguards. There are other alternatives, however, that would preserve the incentives foraffordable price purchase while allowing the state to be reimbursed under second sale at fairmarket value. For example, the appreciation could be allowed to accrue to the purchaser and the state at the same proportions of purchase price and fair market value: a purchase at

$200,000 of a $1 million property would imply the purchaser receives 20 percent of any subsequent sale (assuming it is sold at a price above the first-sale fair market value), and the state receives 80 percent of the subsequent sale (or, at a minimum, $800,000). Under such conditions, the risks would be easier to assess for potential affordable price purchasers and banks, and would still meet the requirements of statute.

There is also a question regarding the impacts of a second sale of an affordable price property if the borrower defaults and the mortgage issuer liquidates the property. The property is unlikely to remain an affordable price property, and a lender is likely to sell the property at a price closer to the fair market value. However, the regulation is silent on whether the lender would return any of the sales proceeds to the state. If the lender is able to keep the proceeds, they receive a benefit, while the state does not. The SRIA assumes that the safeguards are enough that second sales would only happen after the 30-year deed restriction expires. This requires either much stronger justification, or the SRIA must also address the impacts that occur after a second sale.

The discussion of the fiscal impacts of the regulation, and the resulting statewide impact on businesses and individuals, is also incomplete. The current rents relieve some obligations from the General Fund. The sale of the properties thus would have impacts on individuals and businesses across the state through the tax burdens needed to absorb the impact on the General Fund. After the sa les occur, the proposed reg ulations imply benefits to the local economy at the expense of costs to the rest of the state. While the SRIA does include the impact of additional transportation spending on the local economy, the SRIA must also discuss the impacts to the General Fund.

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

Sincerely,

Irena Asmundson

Chief Economist

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

CALTRANS RESPONSE TO DEPARTMENT OF FINANCE COMMENTS

February 17, 2015

Irena Asmundson

California Department of Finance

915 L Street

Sacramento, CA 95814-3706

Dear Ms. Asmundson:

Thank you for your comments dated January 23, 2015, concerning the Affordable Sales Program regulations Standardized Regulatory Impact Assessment (SRIA). The impacts discussed in the SRIA are based on the attached revised draft Affordable Sales Program Regulations. Also attached is the revised SRIA, revised Form 399 and revised summary.

Following are the comments the State of California Department of Transportation (Caltrans) received from Department of Finance, and Caltrans response to these comments.

DOF Comment #1:

Caltrans derived estimates of the number of properties that will be sold at an affordable price to qualifying tenants, and proposed safeguards such as a 30-year deed restriction on resale and penalties for noncompliance with sale restrictions (such as rental instead of owner occupancy, or early resale). The estimates rely on the assumptions that tenants will be able to qualify for a mortgage under these conditions, they are able to get mortgage financing, and they choose to purchase the property with the restrictions. However, the 30-year deed restriction and noncompliance penalties that benefit the state impose significant risk on the potential purchaser, and there is a large shift in benefits to the purchaser at that 30-year mark. For example, if there were a change in family situation or a job opportunity out of the area before 30 years have elapsed, the purchaser would have to repay the state the difference between their purchase price and the fair market value, plus penalties of 6 percent a year over the length of their ownership. After the 30 years have elapsed, the tenant would receive the entire resale value, while the state would receive nothing. These conditions would likely decrease the number of affordable price purchasers, since it would not only discourage potential purchasers, it would make it difficult for banks to offer mortgages.

Caltrans Response:

We have proposed different safeguards in the revised draft regulations than those in the original regulations which placed a 30 year deed restriction on properties that sold below fair market value. The revised draft regulations now provide for the buyer to sell their property after one year without being non compliant and incurring penalties. For the buyer that purchases at an affordable price and decides to sell, the difference between the original fair market value (FMV) and the original affordable price must be returned to the State. This money will be put in an Affordable Housing Trust Account that will be created and administered by CalHFA to use for affordable housing in this area. If the sale occurs within the first five years of original purchase, the affordable sales buyer will get 20% of the net appreciation after the first year, increasing 20% per year until attaining the full 100% after the fifth year. After the second sale, the state will no longer be involved in these properties. In addition, CalHFA is developing a product to help with the financing of properties that are sold below FMV. For reasonably priced properties that sell to housing authorities, the equity will be split between the Affordable Housing Trust Account and the housing authority. This 50% is the difference between the original FMV and the original reasonable price. The net appreciation will be similar to those that purchase at an affordable price where if the sale occurs within the first five years of the original purchase, the housing authority will get 20% of the net appreciation after the first year, increasing 20% per year until attaining the full 100% of the net appreciation after the fifth year. After the second sale, the state will no longer be involved in said properties.

DOF comment #2:

Writing all the contingencies into the regulation would be unreasonable, but the state does need some safeguards. There are other alternatives, however, that would preserve the incentives for affordable price purchase while allowing the state to be reimbursed under second sale at fair market value. For example, the appreciation could be allowed to accrue to the purchaser and the state at the same proportions of purchase price and fair market value: a purchase at $200,000 of a $1 million property would imply the purchaser receives 20 percent of any subsequent sale (assuming it is sold at a price above the first-sale fair market value), and the state receives 80 percent of the subsequent sale (or, at a minimum, $800,000). Under such conditions, the risks would be easier to assess for potential affordable price purchasers and banks, and would still meet the requirements of statute.

Caltrans Response:

The revised draft regulations provide for an equity sharing model similar to the one suggested in DOF's comment. There were several different equity sharing models discussed with CalHFA and HCD. The model selected is the one described in the response to Comment #1. For the buyer that purchases at an affordable price and decides to sell, the difference between the original fair market value (FMV) and the original affordable price must be returned to the State. This money will be put in an Affordable Housing Trust Account that will be created and administered by CalHFA to use for affordable housing in this area. If the sale occurs within the first five years of original purchase, the affordable sales buyer will get 20% of the net appreciation after the first year, increasing 20% per year until attaining the full 100% after the fifth year. After the second sale, the state will no longer be involved in these properties.

For reasonably priced properties that sell to housing authorities, the equity will be split between the Affordable Housing Trust Account and the housing authority. This 50% includes the difference between the original FMV and the original reasonable price. The net appreciation will be similar to those that purchase at an affordable price where if the sale occurs within the first five years of the original purchase, the housing authority will get 20% of the net appreciation after the first year, increasing 20% per year until attaining the full 100% of the net appreciation after the fifth year. After the second sale, the state will no longer be involved in said properties.

DOF Comment #3:

There is also a question regarding the impacts of a second sale of an affordable price property if the borrower defaults and the mortgage issuer liquidate the property. The property is unlikely to remain an affordable price property, and a lender is likely to sell the property at a price closer to the fair market value. However, the regulation is silent on whether the lender would return any of the sales proceeds to the state. If the lender is able to keep the proceeds, they receive a benefit, while the state does not. The SRIA assumes that the safeguards are enough that second sales would only happen after the 30-year deed restriction expires. This requires either much stronger justification, or the SRIA must also address the impacts that occur after a second sale

Caltrans Response:

The definition of transfer in the revised draft regulations states "Transfer" means any sale, assignments, or conveyance, voluntary or involuntary, of any interest in the property. Without limiting the generality of the foregoing, transfer shall include (i) a transfer by devise, inheritance or intestacy to a party who does not meet the definition of persons or families of low or moderate income, (ii) a lease or occupancy agreement of all or any portion of the property unless due to hardship or otherwise approved by the Department, (iii) creation of a life estate, (iv) creation of a joint tenancy interest, (v) execution of a land sale contract by which possession of the property is

transferred to another party and title remain in the transferor, (vi) a gift of all or any portion of the property, or (vii) any voluntary conveyance of the property. Transfer shall not include conveyance by devise, inheritance, or intestacy to a spouse, a conveyance to a spouse pursuant to the right of survivorship under a joint tenancy, conveyance to a revocable trust, or a conveyance to a spouse in a dissolution proceeding, however, any subsequent conveyance shall be subject to the use and resale restrictions. By stating, "any sale…..voluntary or involuntary", the intent is that the lender would be subject to the same restrictions as the buyers that purchase below FMV.

DOF comment #4:

The discussion of the fiscal impacts of the regulation, and the resulting statewide impact on businesses and individuals, is also incomplete. The current rents relieve some obligations from the General Fund. The sale of the properties thus would have impacts on individuals and businesses across the state through the tax burdens needed to absorb the impact on the General Fund. After the sales occur, the proposed regulations imply benefits to the local economy at the expense of

costs to the rest of the state. While the SRIA does include the impact of additional transportation spending on the local economy, the SRIA must also discuss the impacts to the General Fund.

Caltrans response:

The SRIA now states that the General Fund will not receive the $4.8 million in rent per year once all the properties sell. 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 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.

Thank you again for your comments. If you have any questions, please contact me at (916) 825-2600. Thank you.

Sincerely,

HEIDI SYKES

Project Delivery Management Liaison

AMENDED STRADARDIZED REGULATORY IMPACT ASSESSMENT

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 ASP regulations set forth the policy, process, and procedures that will allow Caltrans to dispose of surplus residential properties in accordance with the Roberti Act. 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.

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.

- 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 (attached) 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.

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 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 spring 2015. The number and specific properties for this Phase is 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 is planned for circulation in February 2015. The Final Environmental Impact Report is planned to be complete in 2016.

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 one year beyond, for a total of 6 years. From the benefit-cost analysis, the statewide benefit is estimated to be $335 million and the statewide cost is estimated to be $105 million for the six year analysis period. See chart labeled Regulation Total on Page 10.

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 six year analysis period is $85 million and the statewide cost is $85 million. See chart labeled BASELINE (w/o Regulations) on the next page.

Per a 2012 Audit and Division of Right of Way:

- 398 single family residences and multifamily residence are owned by Caltrans, most are rented.
- CT 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.

BASELINE (w/o Regulations):					
Benefits:			**Costs:**		
Individuals			**Individuals**		
Property Management Employees	$ 2,000,000		Rent	$ 4,800,000	
Caltrans			**Caltrans**		
Rents	$ 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
20/21		$14.70m			$14.70m
Total		**$84.50m**			**$84.50m**

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:
5 years plus 1

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 five year full implementation for property sales and the six year analysis will start in 2015/16.

Per the 2012 audit, there are 398 single family residences and multi-family residences to be sold.

YEAR	NUMBER OF PROPERTIES ESTIMATED TO BE SOLD
2015/16	45
2016/17	75
2017/18	92
2018/19	92
2019/20	94

Determine the universe of properties to be sold.

- Per the 2012 Audit, 398 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 $238 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 50 properties will sell to housing-related public and private entities at a reasonable price. Assume all multi-family homes and nine single family homes, will be spread between cities.
        4. Pasadena- 13
        5. So. Pasadena- 13
        6. Los Angeles- 24

    - Assume the remaining properties will sell at FMV. Per the 2012 audit: 398-100-50=248 single family properties.
        4. Pasadena- 63
        5. So. Pasadena- 42
        6. Los Angeles- 143

Although 58 properties were rented at an affordable price in 2012 when the audit was completed, that number has increased to 157 with the new affordable rent regulations.

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

Fiscal YR	Total number of properties sold	Total number of Affordable properties sold	Total number of Reasonable properties sold	Total number of Fair Market Value properties sold
15/16	45	11	5	29
16/17	75	19	9	47
17/18	92	23	12	57
18/19	92	23	12	57
19/20	94	24	12	58
Totals	398	100	50	248

Breakdown of Properties Sold in Pasadena, South Pasadena and Los Angeles

Fiscal YR	Pasadena Afford-able	Pasadena Reason-able	Pasadena Fair Market Value	South Pasadena Afford-able	South Pasadena Reason-able	South Pasadena Fair Market Value	LA Afford-able	LA Reason-able	LA Fair Market Value
15/16	3	2	7	2	1	5	6	2	17
16/17	4	2	13	4	2	8	11	5	26
17/18	6	3	14	4	3	9	13	6	34
18/19	6	3	14	4	3	10	13	6	33
19/20	6	3	15	4	4	10	14	5	33
Totals	25	13	63	18	13	42	57	24	143

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. The only 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
  - 13 properties–11 MF +2 SF
  - $1.68m MF

    - $720,000 SF
    - Avg. Reasonable Price= $1.6m

- So. Pasadena–
    - 13 properties–11 MF +2 SF
    - $660,000 MF
    - $530,000 SF
    - Avg. Reasonable Price= $640,000
- Los Angeles–
    - 24 properties–19 MF + 5 SF
    - $230,000 MF
    - $210,000 SF
    - Avg. Reasonable. Price= $225,000

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 15 years. Per the Affordable Sales Regulations, for the buyer that purchases at an affordable price and decides to sell their properties, the difference between the original FMV and the original affordable price must be returned to the State. This money will be used for affordable housing in this same area. If the sell occurs within the first five years of original purchase, the buyer that purchases at an affordable price will get 20% of the net appreciation at the start of the second year, increasing 20% per year until attaining the full 100% of the net appreciation at year 5.

For the reasonably priced properties that sell to designated housing authorities, the equity will be split between the state and the designated housing authority. This 50% includes the difference between the original FMV and the original reasonable price, in addition to the net appreciation. This money is expected to be used for affordable housing in the same area. All other housing authorities that purchase at a reasonable price will follow the same criteria as that set for the people that purchase homes at an affordable price.

Relocation Assistance Program- Existing Government Code Sections 54235-54238.7, Surplus Residential Property, provides for limited relocation assistance benefits for existing eligible tenants who cannot afford to purchase their home and have to move because the home is sold to another party. The total estimated cost for the analysis period is $2.5 million dollars.

Discuss the Benefits and Costs:

Regulation Total- 6 year analysis period					
Benefits:			**Costs:**		
Individuals			Individual		
			Mortgage	$ 45,000,000	
Disposable Income	$2,200,000		Rent	$ 15,600,000	
Relocation Assistance	$2,500,000		Closing Costs	$ 1,800,000	
Property Management/Sales employees	$24,000,000				
Caltrans			Caltrans		
Property Sales Proceeds	$262,900,000		Property Sales (Staff)	$16,300,000	
Rent	$15,600,000				
Other:			Relocation Assistance	$2,500,000	
			Property Management (Staff)	$7,900,000	
Maintenance Services (DGS)	$9,600,000		Maintenance Services	$12,600,000	
Private Contractors	$3,000,000				
Los Angeles County (24%)	$3,700,000		Los Angeles County (24%)	$3,700,000	
Los Angeles County (Property Tax Assessment)	$11,500,000				
Historic Property Monitoring (Local)	$1,100,000		Historic Property Monitoring (Local)	$1,100,000	
Total Benefits:	**$335,000,000**		**Total Costs:**	**$105,000,000**	

Costs

As shown in the chart on the prior page, the total costs for the Regulation for the six year analysis period is estimated to be $105 million dollars. This includes:

Caltrans:

- Maintenance services are estimated to reduce from $4.9 million in 15/16 to $0 in 20/21. The total cost to Caltrans is $12.6 million.
- The total paid by Caltrans for historic property monitoring is estimated at $1 million.
- The property management staff is estimated to cost approximately $1.9 million in 15/16, reducing to $375,000 in 20/21. The total cost paid by Caltrans is approximately $7.9 million.
- To sell the properties, it is estimated at $1.6 million in 15/16 increasing to $3.8 million in 18/19. This includes the closing cost. The total cost paid by Caltrans is estimated to be $16.3 million.
- The relocation assistance Caltrans pays is estimated to be $2.5 million.
- The 24% the State pays to LA County drops from $1.3 million in 15/16 to $0 in 20/21. The total cost paid by Caltrans is $3.7 million.

Individuals and Others:

- Mortgage payments are estimated to increase from $1.0 million in 15/16 to $13 million in 20/21. The total cost paid by individuals is estimated to be $45 million.
- The total rent paid by individuals is estimated to be $15.6 million.
- The closing costs paid by buyers is estimated to be $3700 per property (Zillow), this is approximately $1.8 million for the analysis period.

Benefits

As shown in the chart on the prior page, for the six year analysis period, the total statewide benefit is estimated to be $335 million. Included in this total is:

Caltrans:

- Property Sales paid to the state are estimated to be $260 million.
- Total rent paid to the State is estimated to be $15.6 million.

Individuals and Others:

- Disposable income for individuals is estimated to be $2 million.
- Relocation assistance to individuals is estimated to be $2.5 million.
- Maintenance services paid to the locals and others is $15 million.
- Property tax assessment and 24% paid to the LA County is estimated to be $15 million.
- The total paid to the locals for historic property monitoring is estimated at $1 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.

The Analysis Period Reported Yearly with Regulations					
Year		Benefits		Costs	
15/16		$42 m		$18 m	
16/17		$62 m		$19 m	
17/18		$75 m		$19 m	
18/19		$75 m		$19 m	
19/20		$75 m		$19 m	
20/21		$5 m		$11 m	
Total		**$335 m**		**$105 m**	

The yearly difference between the benefits and costs with and without the regulations are shown in the following chart.

The Difference between No Regulations and With Regulations for the Analysis Period Reported Yearly					
Year		Benefits		Costs	
15/16		$ 30 m		$ 4 m	
16/17		$ 60 m		$ 5 m	
17/18		$ 60 m		$ 5 m	
18/19		$ 60 m		$ 5 m	
19/20		$ 60 m		$ 4 m	
20/21		$-10 m		$-3 m	
Total		**$260 m**		**$20 m**	

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 TREDIS Transportation Economic Impact Model, 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 nine 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 <u>FMV</u> parcels

<u>Assumptions:</u>

- 25% of FMV parcels would be purchased by existing tenants and 75% 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 economic impact assessment was carried over six years.

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 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 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 six 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 $17 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 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. 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.

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 instead of 100 properties being sold at an affordable price that an additional 20% will be sold and a total of 120 single family homes will be sold at an affordable price. Caltrans assumes that the number of reasonable priced properties will stay the same, 50. This alternative will reduce the number of homes sold at FMV to 228.

Cost and Benefit

The total benefit for Alternative 1 in the six year analysis period is $320 million and the total cost is $105 million.

Reason for Rejecting: This alternative assumes more properties will sell at an affordable price which is one of the objectives of the Roberti Bill. It does reduce the benefits calculated due to the reduced

number of properties selling at FMV; however, the state would like the regulations to result in more homes being sold at an affordable price.

ALTERNATIVE #1 Benefit and Costs					
Benefits:			**Costs:**		
Individuals			Individuals		
			Mortgage	$ 40,000,000	
Disposable Income	$ 2,600,000		Disposable Income		
Relocation Assistance	$ 2,500,000				
Property Management/Sales employees	$24,000,000		Rent	$ 14,700,000	
Caltrans			Closing Costs	$ 1,500,000	
Property Sales Proceeds	$ 247,800,000		Caltrans		
Rent	$ 14,700,000		Maintenance Services	$ 12,600,000	
Maintenance Services (DGS)	$ 9,600,000		Los Angeles County (24%)	$ 3,500,000	
Private Contractors	$ 3,000,000				
Los Angeles County (24%)	$ 3,500,000		Relocation Assistance	$ 2,500,000	
			Property Management (Staff)	$ 7,900,000	
			Property Sales (Staff)	$ 16,300,000	
Los Angeles County (Property Tax Assessment)	$ 9,100,000				
Historic Property Monitoring (Local)	$ 1,100,000		Historic Property Monitoring (Local)	$ 1,100,000	
Total Benefits:	**$ 320,000,000**		**Total Costs:**	**$105,000,000**	

ALTERNATIVE 1 Output and Value Added				
Year	Disposable Income	Output	Employment	Value-Added
15/16	$ 31,140	$ 39,928	0.3	$ 23,732
16/17	$ 163,370	$ 209,473	1.4	$ 124,504
17/18	$ 293,836	$ 376,757	2.5	$ 223,933
18/19	$ 476,460	$ 610,917	4.1	$ 363,110
19/20	$ 679,519	$ 871,279	5.8	$ 517,861
20/21	$ 945,218	$ 1,211,958	8.0	$ 720,350
Total	$ 2,600,000	$ 3,300,000	22.0	$ 2,000,000

Year	Construction Investment	Output	Employment	Value-Added
15/16				
16/17	$ 25,600,000	$ 36,000,000	179	$ 39,900,000
17/18	$ 46,800,000	$ 65,800,000	328	$ 72,900,000
18/19	$ 60,400,000	$ 84,900,000	423	$ 94,000,000
19/20	$ 64,000,000	$ 89,900,000	448	$ 99,600,000
20/21	$ 66,600,000	$ 93,600,000	466	$ 103,700,000
Total	$ 263,400,000	$ 370,200,000	1,844	$ 410,100,000

Alternative 2

The second alternative assumes only 80 homes will sell at an affordable price, while maintaining 50 homes will sell at a reasonable price. This will increase the number of homes that sell at FMV to 268.

Costs and Benefits

As shown in the chart below, the total benefit for alternative 2 in the six year analysis period is approximately $350 million and the total cost is approximately $105 million.

Reason for Rejecting

Even though this alternative provides the biggest benefit to the state, the ASP regulations are trying to provide as many properties at an affordable price as possible.

ALTERNATIVE #2 Benefits and Costs					
Benefits:			**Costs:**		
Individuals			Individuals		
			Mortgage	$ 50,000,000	
Disposable Income	$ 1,900,000		Disposable Income		
Relocation Assistance	$ 2,500,000				
Property Management/Sales employees	$24,000,000		Rent	$ 15,700,000	
Caltrans			Closing Costs	$ 1,500,000	
Property Sales Proceeds	$ 278,400,000		Caltrans		
Rent	$ 15,700,000		Maintenance Services	$ 12,600,000	
Maintenance Services (DGS)	$ 9,600,000		Los Angeles County (24%)	$ 3,800,000	
Private Contractors	$ 3,000,000		Relocation Assistance	$ 2,500,000	
Los Angeles County (24%)	$ 3,800,000				
			Property Management (Staff)	$ 7,500,000	
			Property Sales (Staff)	$ 16,300,000	
Los Angeles County (Property Tax Assessment)	$10,200,000				
Historic Property Monitoring (Local)	$ 1,100,000		Historic Property Monitoring (Local)	$ 1,100,000	
Total Benefits:	**$ 350,000,000**		**Total Costs:**	**$ 110,000,000**	

ALTERNATIVE 2
Output and Value Added

Year	Disposable Income	Output	Employment	Value-Added
15/16	$ 12,169	$ 15,604	0.1	$ 9,274
16/17	$ 120,607	$ 154,643	1.0	$ 91,915
17/18	$ 201,106	$ 257,858	1.7	$ 153,263
18/19	$ 330,868	$ 424,238	2.8	$ 252,154
19/20	$ 485,990	$ 623,137	4.1	$ 370,373
20/21	$ 720,829	$ 924,246	6.1	$ 549,343
Total	$ 1,900,000	$ 2,400,000	15.9	$ 1,400,000

Year	Construction Investment	Output	Employment	Value-Added
15/16				
16/17	$ 24,700,000	$ 34,700,000	173	$ 38,500,000
17/18	$ 46,000,000	$ 64,600,000	322	$ 71,600,000
18/19	$ 58,500,000	$ 82,200,000	410	$ 91,100,000
19/20	$ 62,500,000	$ 87,800,000	438	$ 97,300,000
20/21	$ 65,600,000	$ 92,200,000	459	$102,100,000
Total	$ 257,300,000	$ 361,500,000	1,801	$400,600,000

Sensitivity Analysis

A sensitivity analysis was completed to see the variation that would occur if all the properties were sold in each category. As shown in the alternatives analysis, the more homes that sell at FMV, the greater the financial benefit to the state; however, the purpose of these regulations is to provide affordable housing.

Sensitivity Analysis		Benefits		Costs
All Properties Sell at Fair Market Value		$370,000,000		$160,000,000
All Properties Sell for an Affordable Price		$117,000,000		$70,000,000
All Properties Sell for a Reasonable Price		$245,000,000		$115,000,000

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESSES

Caltrans has not identified any alternatives that would lessen any adverse impact on small businesses.

REASONABLE ALTERNATIVE TO THE REGULATION, AND THE AGENCY'S REASONS FOR REJECTING THOSE ALTERNATIVES

In accordance with Government Code section 11346.5, subdivision (a) (13), Caltrans must determine that no reasonable alternative that is considered or that has otherwise been identified and brought to the attention of Caltrans would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

The May 30, 2014 proposed regulation proposed a 30-year deed restriction and 100% of the proceeds at the end of the 30-year period would be due to the purchaser of the surplus residential property. The 30-year deed restriction that benefits the state imposes significant risk on the potential purchaser and there is a large shift in benefits to the purchaser at the 30 year mark. The 30-year deed restriction may make it difficult for potential purchaser to obtain financing.

From comments received and in consultation with California Housing and Finance Agency (CalHFA) and Housing and Community Development (HCD), another alternative has been proposed. The regulation proposes an Affordable Housing Trust Account to be created and managed by CalHFA. Proceeds deposited to 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, LaCanada Flintridge, and the 90032 ZIP code including any arrangement for the financing of multifamily developments or the purchase of loans made to effectuate the purpose of the Roberti Act. Upon subsequent sale, the difference between the less than fair market value price and the appraised value at the time of the sale from Caltrans would be due to the Affordable Housing Trust Account or split with the Affordable Housing Trust Account and the entity. Any appreciation would be based on an equity sharing model. The appreciation in value upon subsequent sale would be split between the Affordable Housing Trust Account and the persons or families or affordable housing 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.