Association of Bay Area Governments | **Bay Area Housing Finance Authority**

Housing Committee | **Oversight Committee**

May 13, 2026 | Agenda Item 7.b.

Welfare Tax Exemption Program Fees

Subject:

Recommend adoption of Resolution No. 39 – to adopt a fee schedule for the Welfare Tax Exemption Program and to delegate authority to staff to collect those fees from program applicants and to approve fee reduction requests if such a request meets the criteria specified in the adopted Fee Schedule

Background & Summary

On June 22, 2022, the Bay Area Housing Finance Authority (BAHFA) Board adopted BAHFA Resolution No. 16, approving the creation of a Welfare Tax Exemption Preservation Program (WTEPP) to assist housing developers secure a welfare tax exemption necessary to create and preserve affordable housing. The program's assistance includes a recorded deed restriction on the property that ensures that rents remain affordable to low-income residents, as well as a $5,000 grant, which is the minimum local financing required to apply for a welfare tax exemption. To date, BAHFA's $40,000 grant investment across eight properties has successfully preserved 881 units of affordable housing with 55-year restricted terms.

To date, the program has operated at no cost to properties, with BAHFA staff time associated with this work being paid for by other sources. Application of a program fee has been contemplated since WTEPP was first launched, and this item proposes the adoption of a fee schedule that would recover the costs of operating the program, either in its current form or expanded form.

Adoption of a Fee Schedule per this proposal will serve to implement part of BAHFA's recently completed Strategic Plan, as the outcome of Module 2 calls for the generation of revenue from BAHFA Programs to support efforts to achieve financial sustainability.

Concurrent with this item, staff propose revisions to the WTEPP program to address lessons learned since the program was initially adopted and in response to stakeholder feedback from the recently completed Strategic Plan's Module 3 work. The main substantive proposed change to the program is to expand its scope to include new construction (with corresponding change of the program name to Welfare Tax Exemption Program or "WTEP"), along with some minor term revisions as further described in item 7.a for Oversight Committee and ABAG Housing Committee review and feedback. The recommendations outlined in this proposed fee schedule summary would apply regardless of whether the recommended expansion is approved as recommended.

Discussion:

A. Applicability of Proposed Fee Schedule:

As part of implementation of BAHFA's recently completed Strategic Plan, staff proposes the adoption of a fee schedule intended to recover the costs of implementing the Welfare Tax Exemption Program on a project-by-project basis. The proposed fee schedule would be applicable to projects processed under the current WTEPP program as well as the proposed expanded WTEP program, as the scope of work, time, and cost involved with either the current or expanded program is anticipated to be very similar.

B. Research and Considerations:

Staff undertook two streams of work that resulted in background and information that helped to shape and inform the proposed fee structure:

1. Overview of Other Similar Programs and Fee Structures
2. Review of BAHFA Program Costs

Both bodies of work are further discussed below.

1. Overview of Other Similar Programs and Fee Structures: While staff identified several programs across the country that allow projects to qualify for a property tax exemption as a result of applying income-based deed restrictions, most programs were operated as a small part of a larger portfolio of affordable housing programs within public agencies that received funding outside of a cost recovery model These programs were not considered similar to BAHFA's WTEPP.

   A few programs were identified in which agencies operate standalone welfare tax exemption programs and have instituted fee schedules designed to reflect the actual initial cost and anticipated long term costs of program operations over time. In these cases, the fee structure typically consisted of two components: (a) an upfront project initiation and closing fee, and (b) an ongoing annual monitoring fee. Under both, up front and monitoring fee structures, these programs charged a base fixed fee and a variable fee that increased with the number of housing units in the program.
   A couple of features that distinguish the BAHFA program from others, and which are designed to ensure that BAHFA's program results in a net public benefit, include:
   - BAHFA requires any restricted unit to have starting rents set at least 10% below market rents
   - For preservation projects, BAHFA requires sponsors to develop a plan for reducing the financial impact on severely rent burdened households at the property.

2. Review of BAHFA Program Costs: Staff have analyzed the standard tasks associated with processing a typical project to estimate the internal costs of administering the program. Typical activities include:
    - Responses to pre-application inquiries
    - Application intake
    - Review of submitted application and documentation
    - Project underwriting
    - Research market rate rents and negotiation of 10% discounted rents
    - Outreach to/interface with local jurisdiction and interested community stakeholders
    - Negotiation of grant agreement and regulatory agreement
    - Grant funding and close
    - Regular internal and applicant meetings over the course of the process
    - Post-close debrief and lessons learned

    While most of the tasks associated with application intake and review would be similar among all applications, a few factors will impact the time required to review and process any particular application. These include:

    - Level of local jurisdiction and community interest and interaction
    - Project size
    - Quality of application submittals
    - Determination of market rents and negotiation of 10% discount, as applicable

    Of these factors, the most predictable variable is project size, due to the work involved in reviewing unit-by-unit information, including rent rolls, income certifications, lease terms, etc.

    In reviewing staff time spent on prior applications, the process of application intake, underwriting, processing, and closing is estimated to have an internal cost of $40,000 - $50,000 for an average application. Project size also plays a role, with larger projects requiring incrementally more time to review project specifics.

    Similar to the Project Initiation phase, staff anticipate that the cost of Annual Monitoring will follow a similar pattern, with some of the activities the same amongst all projects, but the most predictable and impactful variable will be project size and the time involved in reviewing unit-by-unit documentation.

C. Proposed Fee Structure:

As a result of both the market research for similar programs as well as review of internal BAHFA processes and costs, staff is proposing a fee structure that recognizes there is a

base cost to processing and monitoring but also a predictable variable cost based on project size:

1. Project Initiation Fees:

    a. Application Fee: $2,500 nonrefundable, due at time of application, credited against Base Fee at close

    b. Base Fee: $20,000, due at close

    c. Per Unit Fee: $150 per Restricted Unit, due at close applied to total number of units anticipated to be restricted over time

2. Annual Project Monitoring Fees:

    a. $100 per Restricted Unit, up to 200 Units

    b. $50 per Restricted Unit for every additional unit over 200 units

    c. Minimum $5,000 per Year

An example of Project Initiation Fees and Annual Monitoring Fees, by project size, is illustrated below:

Project Size	***Project Initiation Fee (Includes Application Fee)***	***Annual Monitoring Fee***
50 Units	$27,500 Total/ $550 per unit	$5,000/ $100 per unit
100 Units	$35,000 Total/ $350 per unit	$10,000/ $100 per unit
150 Units	$42,500 Total/ $283.33 per unit	$15,000/ $100 per unit
300 Units	$65,000 Total/ $216.66 per unit	$25,000/ $83.33 per unit

Issues:

- Cost Monitoring: Given that the WTEPP program is still in its early stages, staff recognize that BAHFA's costs of processing may evolve over time. As the program continues and expands, staff will conduct cost analyses and will revisit the recommended fee structure in the future as more data is available.

- Financial Feasibility for Smaller Projects Achieving Outsized Impact: While most applications will likely be larger in size, staff anticipate that smaller projects may occasionally find the program's core components to be beneficial but given thin margins due to the lack of economies of scale the proposed fee structure could create financial hardship and render smaller projects infeasible. In keeping with BAHFA's Equity Framework, the proposed Fee Schedule delegates authority to staff to apply fee reductions to the extent small projects meet specific criteria, including meeting target equity outcomes and demonstration that a reduced fee would result in the project achieving long term financial viability.

- CPI Adjustments: Staff propose that the fee schedule include the ability for fees to be adjusted from time to time to reflect increasing staff costs over time. Because staff time comprises the majority of costs, CPI-U is proposed as the means for adjusting fees.

Welfare Tax Exemption Program Fees

Recommended Action:

The BAHFA Oversight Committee is requested to recommend Bay Area Housing Finance Authority (BAHFA) adoption of BAHFA Resolution No. 39 – to adopt a fee schedule for the Welfare Tax Exemption Program and to delegate authority to staff to collect those fees from program applicants and to approve fee reduction requests if such a request meets the criteria specified in the adopted Fee Schedule

Attachments:

A. BAHFA Resolution No. 39

B. Attachment A to BAHFA Resolution No. 39: Proposed Fee Schedule for Welfare Tax Exemption Program

C. Presentation

Reviewed:

Andrew Fremier