

Increasing Sustainable and Affordable Housing Development by Reforming California Tax Credit Allocation Policy to Minimize Parking Subsidies and Maximize Housing

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Summary

The state of California helps finance affordable housing development through tax credits using a system that subsidizes costly parking, wastes millions of dollars on unused parking spaces, and diverts funds and land from affordable housing development, reducing how much can be built. It encourages vehicle ownership, traffic congestion, accidents, greenhouse gases, and pollution and lacks incentives for alternative mobility.

Bundling parking with housing is unfair to households that do not use the parking spaces assigned to them, but whose rent must cover the costs. Unbundling would rent parking spaces separately from housing units, so households pay only for parking spaces they actually need.

In short, current tax credit allocation policies contradict local and state objectives to provide affordable housing and counter climate change.

1. Introduction

The state of California helps finance affordable housing development through tax credits.¹ The *California Tax Credit Allocation Committee* (CTCAC) administers federal and state housing tax credit programs that help finance private investment in affordable rental housing for households meeting certain income requirements.² The CTCAC establishes and manages the process through which these credits are allocated.

The current CTCAC process unintentionally encourages developers to provide abundant and costly parking facilities. In particular, it provides extra funding, called a “basis boost,” for structured or underground parking, which is particularly expensive, more than \$40,000 per space, many times more than surface parking. These policies divert millions of dollars from financing housing to subsidizing parking facilities, which encourages vehicle ownership, increased traffic congestion, accidents, greenhouse gases, and pollution. These policies provide little incentive for a comprehensive approach to environmental sustainability, economic efficiency, and social equity.

The planning world is undergoing a paradigm shift in how parking is planned and managed.³ The old paradigm tried to maximize parking supply and minimize prices, and required that generous amounts of parking be included in most developments. The new paradigm favors more efficient mobility management by controlling the number of parking spaces, total costs, and subsidies, which reduces traffic congestion, pollution emissions, and housing costs. These reforms are particularly appropriate for affordable urban housing, where residents tend to own fewer than average vehicles. Current tax credit allocation policies therefore contradict local and state strategic planning objectives to create more resource-efficient and equitable communities.

A number of policies need to come together to shift from car-dependent suburbia to compact development using other modes. The policies include more efficient mobility based on parking management in neighborhoods, unbundling (renting parking spaces separately from housing units, so households only pay for the number of parking spaces they actually need), and smart meters on shopping streets. Improving walking and bicycling needs to be reinforced with density, local-serving business, and reducing negative impacts of cars from too much traffic, speed, and pavement. Reform includes the ability to use a car for some trips without having to own one—car share, car rental, taxis, and e-hail rides.

This report is based on reviewing the Tax Credit Application form, 15 tax credit applications, publications and correspondence with the Non-Profit Housing Association of Northern California, in order to identify ways that the process favors parking over housing and over walking and transit. The report provides recommendations to reform these policies, maximize affordable housing development, and make affordable housing policy conform to state housing and climate change objectives.

¹ www.treasurer.ca.gov/ctcac/tax.asp.

² www.treasurer.ca.gov/ctcac/program.pdf.

³ Richard Willson (2015), *Parking Management for Smart Growth*, Island Press.

2. The California Tax Credit Allocation Process

The California Tax Credit Allocation Committee (CTCAC) considers parking an eligible cost and the most expensive parking gets extra funding, called “the basis boost,” as shown below in this section of the most recent CTCAC Application (bolding added):

III. PROJECT FINANCING - SECTION 5: THRESHOLD BASIS LIMIT		
A. Threshold Basis Limit		
TOTAL UNADJUSTED THRESHOLD BASIS LIMIT:		
	Yes/No	
(b)	Plus (+) 7% basis adjustment for new construction projects required to provide parking beneath residential units (not "tuck under" parking) or through construction of an on-site parking structure of two or more levels.	<input type="checkbox"/>

This policy allows applications to increase their basis, which is the capital cost of their project, by 7% above other applications that do not have parking beneath or parking structures.⁴ These policies were established to encourage more compact infill housing, but they are inefficient and unfair. They encourage developers to supply more, and more costly, parking facilities, which reduces housing investments and encourages automobile ownership. The system is unfair to households that own fewer than average vehicles and so are forced to subsidize parking facility costs.

3. Justifications for Reform

There are many policy arguments for reforming CTCAC parking subsidy policies.

Social equity requires increasing affordable housing, not parking. Mobility reform builds more affordable housing with the same funds. Equity requires less paternalism controlling how low income people spend their money. Mobility reform would not charge tenants for parking they don't want or need and would charge them just for unit rent below the federal cap. Mobility reform supports reduced car ownership, producing further savings.

Environmental sustainability requires reducing auto dependency. Mobility reform reduces environmental costs: fossil fuel use, subsidies to automobiles, accidents, greenhouse gases and other environmental externalities. It increases the efficiency and viability of transit-oriented development. Mobility reform reduces traffic and VMT (vehicle miles traveled) and increases walking, bicycling, transit, car share/rental, taxis, and other non-auto modes.

⁴ CTCAC, 2017 9% Competitive Tax Credit Application (REVISED Feb. 7, 2017), www.treasurer.ca.gov/ctcac/2017/application/9percent.xls.

Economic productivity requires using more funds and land for housing and less for subsidized parking. Current policy subsidizes parking in the name of affordable housing, while economic productivity requires that parking pay more of its own way. The amount of housing is reduced by the amount of subsidy for parking. Mobility reform reveals costs of parking hidden in housing costs. It avoids forcing funders and renters to pay for parking used by others. Mobility reform promotes more responsible market-based consumer choice, similar to how tenants already pay for utilities.

Todd Litman, a well-known authority in the field of transportation and development, stated, “Current development practices result in generous parking supply at most destinations, which reduces housing affordability, increases car ownership and stimulates sprawl. This is regressive, since lower-income households tend to own fewer than average vehicles, and unfair, because it forces residents to pay for parking they don’t need. Alternative policies can increase housing affordability and help achieve other transportation and land use planning objectives.”⁵

4. Subsidized Parking? Ban the Basis Boost.

Low income housing Tax Credits permit a housing agency to include parking costs in the basis for the tax credit financing a project receives. The program does not require that projects that have more housing per dollar of investment be preferred over those with less, which shifts funds from housing to parking. Tax credit funds spent on parking subsidizes parking and uses land for parking that could be used for housing. The 7% basis boost allocates even more funds to the most expensive kind of parking, parking structures.⁶

In the case of Mission Daly City in the San Francisco Bay Area, the CTCAC awarded almost a million dollars for building structured parking. In my review of funded projects from 2014, I found that most did not have structured parking. Mercy Arc Housing, 1500 Page St., San Francisco, reported “N/A” for its required parking ratio, apparently meaning that all of the housing funds would be used for housing.

Virtually all parking structures in recent years have been built with taxes or have been forced by local regulations. Without public funding or regulation, the private market does not build parking structures because the high cost would require a parking charge so high that few would pay it. People, especially lower income people living in denser areas with transit and mixed uses, are unlikely to pay the monetary cost of structured parking.

In the long run, structured parking will be more difficult to replace with social uses than surface parking.

⁵ Todd Litman, *Parking Requirement Impacts on Housing Affordability*, Victoria Transportation Institute, 11 June 2014, 38 pages, <http://vtpi.org/park-hou.pdf>. Adam Millard-Ball, “Putting on Their Parking Caps,” American Planning Association, 6 pages, April 2002, www.geog.mcgill.ca/faculty/millard-ball/Millard-Ball_2002_Putting_on_Their_Parking_Caps.pdf. Richard Willson, “Parking Policy for Transit-Oriented Development: Lessons for Cities, Transit Agencies, and Developers,” 16 pages, *Journal of Public Transportation*, Vol. 8, No. 5, 2000, <http://reconnectingamerica.org/assets/Uploads/dallasbrief3.pdf>. A search for “unbundling parking and rent” on Google Scholar finds many additional citations of a similar nature.

⁶ CTCAC, 2017 9% Competitive Tax Credit Application (REVISED Feb. 7, 2017), www.treasurer.ca.gov/ctcac/2017/application/9percent.xls

The basis boost for structured parking was created in an attempt to comply with parking regulations. It is intended to support multi-story densities on small in-fill lots where parking requirements would take up too much land as surface parking. The basis boost recognizes the greater expense for a parking structure to make efficient use of such parcels. From the point of view of a local housing agency, if it can't meet city parking requirements, it can't provide the housing.

This argument, however, assumes that such parking must be built and that it should preempt more efficient use of funds for housing. In fact, the market supports the opposite: central urban areas already offer apartments with limited or no parking, and they are as profitable as those with parking. From a development standpoint, locational advantages can make central rents with no parking higher than suburban rents with parking.⁷

Compact development is better achieved without parking structures. Without a structure, more units can be built with the same funds. Traffic and subsidy to cars are reduced, and walking and transit are increased. Denser urban areas already have walkability, mixed uses, and transit. San Francisco and the East Bay have many buildings with no parking structure.

TransForm estimated that a mid-rise TOD project with 875 units and 1,444 parking spaces (1.65 spaces per unit) could in the same building envelope, with .7 spaces per unit, have 1,021 units, an increase of 146 units.⁸

Rather than build unproductive parking, the emphasis should be on getting realistic parking requirements.

5. Better Basis Boost Ideas for CTCAC

CTCAC should research what would happen if funds for structured parking were eliminated. Could the funds be used to get more housing instead? Would a project really not be built or could it be renegotiated? Given changes related to AB 32, SB 370, and other statutes and changing attitudes about parking, would more cities be willing to drop requirements for structure? If that failed, could other projects be qualified and, if so, build more units?

Banning the basis boost for structures—removing it from the application—could prevent some projects from being built but would build more affordable housing. The Strategic Growth Council, another state agency that funds affordable housing, has shown the way, going even further than what this report recommends, making all parking costs ineligible.

⁷ Sherman Lewis, "Parking Fees at East Bay Apartments 2006," 5 pages, July 3, 2006, unpublished paper. Based on propriety data supplied by RealFacts, a rental apartment research firm.

⁸ TransForm and California Housing Partnership Corp., *Why Creating And Preserving Affordable Homes Near Transit Is A Highly Effective Climate Protection Strategy*, May 2014, pp.13-14

6. Unneeded parking: Eliminate.

Historically, “enough” is defined by American culture as abundant parking free to the driver. The fear of not enough “free” parking leads regulators and planners to require more parking than will be used. Parking requirements attempt to prevent overflow from affordable housing onto neighborhood streets, public shopping streets, and private parking.

Transform on Unneeded Parking

As of February 2016, Transform’s GreenTRIP Parking Database listed 80 affordable multi-family housing developments in the five largest counties of the Bay Area. The database has 11 variables for each development. Transform found that 3,882 parking spaces of a total of 13,823 spaces (28 percent) were unused. These spaces covered 1,164,600square feet (27 acres). The available spaces per unit was 1.16 and the occupied spaces were 0.84.⁹

The reasons for the vacancies are not clear; it may be that a tenant just can’t afford a car at all and uses alternative travel modes. What is clear is that cities required too many spaces. The need for parking, even free parking, is being significantly over estimated.

Blame the cities

Housing agencies blame cities for requiring unneeded parking, mostly because cities do, in fact, require unneeded parking. There is, however, a lack of information about how many projects are stopped by city opposition or are forced to take on excessive parking. We need to know more about opposition to affordable housing projects: How many proposals face it? How many proposals successfully reduce opposition by revising the project? How many proposals are approved despite opposition? How many are withdrawn before an application or a decision? How many are rejected because of opposition?

Some neighborhood opposition may, in fact, be legitimate. Most objections, however, can be managed though education, discussion, project adjustments, and overriding a few diehards. A few proposals may fail, which is to be expected and not a reason to avoid mobility reform. Enough projects will succeed to use the available funds.

Cities have large variations in parking requirements, and can change over time. In 2009, I made the case for parking reform to the City of Hayward. As a result, the City Council created the SMU (Sustainable Mixed Use) zoning which allows unbundling, limits parking spaces, and allows zero spaces per unit. There is a trend to reform standards due to increasing recognition of the harm done by parking forced by zoning and bundling.

Recent state laws modifying CEQA review and reducing parking for smart growth are helping to further this trend. In 2015, AB 744 (Chau) became law, mandating limits on what cities could require in central areas. Cities can now be prohibited from imposing over 0.5 spaces per bedroom, including handicapped and guest spaces on most affordable housing, senior housing, and special needs housing within a half mile of a major transit stop. The projects also have to have paratransit or bus service. It remains to be seen how this new law works, but on paper it seems to prevent a city from denying a project based on too little parking.

⁹ Transform, GreenTRIP Parking Database lists 68 projects with 11 variables for each one. www.transformca.org/greentrip/parking-database. The database can be downloaded. See also www.transformca.org/landing-page/greentrip <http://database.greentrip.org>

Despite these changes, the state, COGs, and MPOs need to apply more pressure. Both common industry practice and local regulation need to change to use market forces to support more efficiency and greater economic productivity.

Managing Parking Ideas for CTCAC

In general, CTCAC should make sure its policies reinforce AB 744 and build on existing CTCAC support for smart growth. CTCAC parking policies should be coordinated with local government parking management of overflow parking, with zoning reform to reduce or eliminate parking requirements, and with support for non-auto modes. CTCAC and housing agencies should go to cities and say, “We want to unbundle, have fewer parking spaces, and build more housing. We want parking only for what people are willing and able to pay for. To manage overflow parking, the city should support policies that are economically efficient, environmentally sound, and socially beneficial.”

Be more aware of parking. Current CTCAC practice penalizes projects with lower parking costs without being aware of it because the CTCAC application does not require relevant information. Parking data—number of spaces, cost per space, ratio of spaces to bedrooms, construction type, percent of total project cost—need to be reported in applications and compiled into a database.

Points to reward reduced parking; finesse the opposition. City and neighbor opposition to affordable housing is unlikely to be influenced by the amount of parking. It is usually impossible to satisfy everyone, no matter how much parking is offered, and anti-social attitudes do not justify wasteful parking. A housing agency may believe that the only way to get their project is to capitulate to unreasonable regulation. In that narrow frame of reference, the agency’s position is logical.

CTCAC should manage parking, however, from a statewide perspective. Given over-application for tax credit funds, projects with more housing (and less parking) are likely to use all the tax credit funds available.

CTCAC can reward points to projects that have less parking than others. Mobility reform does not eliminate parking; rather it ensures that other modes are preferred; parking is more efficient and effective; and more housing gets built. CTCAC does not need to deny directly a project with too much parking; it does need to favor those with less parking.

Cap Parking Ratios. CTCAC needs to establish a reasonable allowable top parking ratio for its application. To do so, CTCAC should review its applications over the last few years and find those that had the highest parking ratio. CTCAC should choose a top allowable parking ratio of bedrooms to parking spaces, helping distribute more funds towards housing,

Capping the ratio would affect only a few projects, and it would improve guidance for applicants and send a message about how much parking would be tolerated in the name of affordable housing.

Manage Parking Off-Site To Stop Overflow.

Poor local parking policy should not be a reason for poor housing policy. While parking policy is a city responsibility, housing agencies can and do work with cities to manage potential overflow parking by tenants. The CTCAC should help housing agencies negotiate parking ratios by giving cities better ideas about how to manage overflow. Three policies are required: neighborhood parking permits, public parking management, and private parking management.

Neighborhood Parking Permits

Neighborhood Parking Permit programs are needed to control use of neighborhood parking by tenants. The problem is far bigger than affordable housing projects. Neighborhoods are often concerned about parking on their streets. Neighbors complain about parking from local apartments, or transit riders, or students, or other neighbors who have vehicles parking on their streets.

Neighborhood parking permit systems give permits to local property owners to park on the street and have some curb space that is time limited for commercial uses. Occasional enforcement is usually enough to limit overflow.

Neighborhood permit programs are used extensively and successfully around the state. Hayward has a large parking permit program covering many areas. Revenues from tickets cover all or most of the costs of enforcement. Housing agencies can include a neighborhood program for the area of their project in their application to a city. (More details are in a HAPA report on Hayward's program.)

Public parking management

Businesses on shopping streets depend on turnover and vacant spaces for shoppers. Cars parked a long time by employees or residents of housing prevent turnover. This kind of parking can be managed simply by two hour limits. However, a better policy for high parking demand streets and public lots is smart meters based on willingness to pay. See <http://parkingpolicy.com>. Smart meters make it easy to pay for time used and the rates can be adjusted based on occupancy rates. The funds can be used to improve the local area for non-auto modes.

Private Parking Management

In 2016, new state law created authority for private parking tickets. Property owners may impose a mail-in penalty payment on vehicles that violate parking restrictions. Pleasant Hill and Walnut creek amended their ordinances for regulating private, off-street parking facilities to make it work.

Park Smart manages private parking for small to large shopping centers, banks, office buildings, retail stores, office buildings, downtown associations, schools hospitals, and privately owned parking lots. "Our goal is to ensure customer parking, discourage illegal parking and create convenient employee parking alternatives" (from the website). Park Smart has contracts in Berkeley, Lafayette, Pleasant Hill, and Walnut Creek. In Walnut Creek, about 70 percent of the 10,000 downtown parking spaces are privately owned and managed. "It's one of those

things that has worked fairly well in the city by making a lot more parking available,” Walnut Creek Councilman Bob Simmons said.¹⁰

Park Smart, the industry leader in private parking management, does:

- Parking Lot Leasing
- Management Contracts
- Parking Time Limit Enforcement
- Reserved Parking Enforcement
- Private Property Parking Meter Installation / Revenue Share
- Parking Meter Enforcement, Collections & Accounting
- Consulting

Park Smart uses modern technology:

- Computerized Revenue Control Systems
- Real Time Ticketing Systems / Scofflaw Search
- Computerized Parking Meters / Credit Card Payment Capability
- Hand Held License Plate Recognition Computers
- Computerized Parking Permit Systems
- Real Time GPS Parking Space Time Limit Tracking
- Detex Computers
- A free smartphone app displays real-time parking information.

Park Smart can prevent parking by tenants too close to a store entrance. By enforcing the parking restrictions, Park Smart creates turnover so spaces are available for customers.

Park Smart uses a license plate reader with time-stamped photos attached to a roving vehicle to keep tabs on parked cars. “Under the Pleasant Hill ordinance, if someone has three unpaid parking fees in a year and is found parked in violation of the rules a fourth time, Park Smart can tow the vehicle. In Walnut Creek, property owners may tow vehicles with three or more unpaid fees in a two-year period.” Payments can be made on line by credit card or e-check.¹¹

Park Smart, however, may not be needed if other things work: signage shown here, signs with a tow-away penalty posted (used by BART), warning tenants not to park in commercial spaces, educating them about alternatives to owning a car based on their mobility needs, a note on rent receipts, enforcement using CCTV (closed circuit TV), and even notes left on windows of cars parked after stores are closed.



¹⁰ “Don’t ignore those private parking lot tickets,” *Mercury News*, 7/1/16, www.mercurynews.com/2016/07/01/dont-ignore-those-private-parking-lot-tickets/. Park Smart, <https://www.regionalparking.com/services.html>

¹¹ Same as above.

7. Expensive Parking: Reward cost control.

Transportation pricing reform in general aims to make cars pay their own way in the whole economy, which includes environmental and social values not measured in monetary transactions. Pricing reform charges for parking, based on market demand or on the monetary costs of the parking. Market demand is defined as the price people are willing to pay based on maintaining a vacancy factor such as 15 percent for public parking and 5 percent for residential parking.

Pricing can be based on monetary cost, but costs vary considerably.¹² Monetary costs include land, construction, operations, taxes, and return on investment. Structured parking includes platform parking, parking underneath single units, above ground multi-level structures, and subterranean structured parking. (Carpools are a type of surface parking, not structured parking.)

Structured parking is especially expensive in central urban areas because of the high land and construction costs. Litman's Parking Costs, Pricing and Revenue Calculator shows per year per space cost varying across 12 parking types from \$531 for suburban on-street parking to \$3,851 for central business district underground parking. (See footnote 3.)

In the case of CTCAC, subsidies work differently from a market price or a monetary price; they use a tax loophole, zoning, and bundling of parking into unit rent.

Tax credit financing is a subsidy in the form of a tax loophole reducing corporate taxes. Instead of requiring involuntary tax payments, the loophole allows voluntary tax reduction. It probably cannot be reformed without an adverse effect on affordable housing; it is a politically viable way to fund affordable housing.

Zoning, discussed in the section above, is another subsidy that forces housing to pay for parking that the market would not pay for. Bundled parking discussed in the next section also subsidizes parking by forcing tenants to pay for it when they may not need it. These two subsidies can be reformed.

Transform data on cost of vacant parking

On-site parking facilities can add significantly to affordable housing project costs, especially if structured. In the case of CTCAC, parking subsidies have resulted in large amounts of unused parking, as reported in the section above. Transform's GreenTRIP Parking Database not only covered unneeded parking, but also made an estimate of the cost of building 3,882 unused parking spaces: \$198,034,400.¹³ The enormous waste of funds on vacant parking exists in spite of the spaces being free to the user.

Parking cost ideas for CTCAC

CTCAC should reward projects with less expensive parking, shifting funds from parking to housing, which is the purpose of tax credits. At first glance, this would seem to go against projects in central areas where parking is most expensive. Yet it is exactly these central areas

¹² Donald Shoup, *The High Cost of Free Parking*, American Planning Association, paperback 2011.

¹³ Transform, GreenTRIP Parking Database lists 68 projects with 11 variables for each one. www.transformca.org/greentrip/parking-database. The database can be downloaded. See also www.transformca.org/landing-page/greentrip <http://database.greentrip.org>.

that have the most support for non-auto modes and the least need for parking. A project in a central area can, in fact, reduce its parking costs to zero, as some have, and compete very effectively for tax allocation dollars. Central areas have locational advantages of walkability, mixed uses, and transit that support alternative mobility, as mentioned under “ban the basis boost” above.

Reward low cost parking. CTCAC has no cost control now but does not need to manage the problem directly. CTCAC can use its point system to reward projects with low or no parking costs.

Cap cost per space. CTCAC should cap costs per space just as it should cap parking ratios. CTCAC should look at applications of the last year or so and estimate cost per space. CTCAC should choose a cap that would cut off the highest cost parking where there might be consensus that the cost is too high. The CTCAC should disallow applications that go above the cap. Capping the cost would affect few projects, improve guidance for applicants, and send a message about parking costs and affordable housing.

8. Bundled? Unbundle.

Most rents in affordable housing are bundled, combining rent for the unit with rent for the parking. When bundled like this, tenants pay for parking whether they want to or not. Parking is never free. The cost of parking is included in bundled rent. Sometimes parking included in rent is believed to be free parking. The assertion that “tenants are not charged for parking” should really be “tenants are not charged for parking in addition to the charge within the rent.”

Unbundling would allow tenants to not rent parking, saving them money, reducing auto dependency, and reducing the paternalism of agencies deciding what is best for low income people. Unbundling cannot increase rent; by definition, unit rent plus parking rent equals bundled rent. Unbundling places no extra burden on a resident with parking; it reduces the burden on a resident not renting parking. Unbundling has no effect on tax credit financing for parking costs. Tax credit financing can be used for parking; unbundling only affects how tenants pay rents.

Unbundling problems

There is widespread support for unbundling, but also resistance because of misperceptions of federal law. Federal regulations require that unit rent, parking rent, and utilities add up to no more than 30 percent of a tenant’s income—the rent cap. Funding for utilities requires the tenant pay separately for utilities, while funding for parking requires, or appears to require, that the tenant pay for parking by bundling it into rent.

As one web source explains, “Generally, residents of federally assisted housing must pay 30 percent of income for rent and utilities. Because most federally assisted residents pay utilities directly, the amount that they are required to pay for rent is adjusted by a ‘utility allowance.’ Under all programs, the utility allowance is a reasonable estimate of the cost of utilities in the area, given the type of building, the size of the unit and household, and the unit’s appliances.” (<http://nhlp.org/node/107>)

A tenant may end up spending more than the utility allowance by using a lot of water and electricity while a next door neighbor may conserve and pay less than the allowance. In the

same way, with a “parking allowance,” a tenant may end up spending more or less than a parking allowance. A parking allowance could further reduce unit rent, like the utility allowance. The utility allowance plus the parking allowance plus the housing rent would have to respect the federal rent cap.

With utilities, there is no question tenants will use them, therefore the utility can be assured of income because everyone uses some utilities. However, with unbundling, each tenant is no longer required to pay for a space and an unrented space has no income.

If a project has no parking, there is no problem. All the rent necessarily goes for units. Similarly, if a project has parking with unbundling and all tenants rent parking, that provides income but gets no benefit from unbundling.

The situation gets complicated when a project has unbundling and some tenants rent parking and some don’t. The project cannot charge for parking that would take the combined rents over the rent cap. If tenants pay only unit rent, the housing agency could lose income from unrented parking spaces. There are ways to manage the problem.

Unbundling Solutions

Comparing Bundling and Unbundling

	<u>bundled</u>	<u>change</u>	<u>unbundled</u>
Convert parking to units			
parking spaces/unit	1.50	37% fewer	0.95
footprint per parking space*	288		
*9'w x (19'd+half aisle @13')			
footprint for 23 parking spaces	6,624	used for units	6,624
footprint/unit at 3 stories		footprint/5	1,325
Project			
units	85	15 more	100
parking spaces	128	23 fewer, rented	105
Project Income			
		per month	
project unit income	\$93,500	lower rent, more units	\$93,500
project parking income	\$0		\$17,325
project income	\$93,500		\$110,825
Per Unit Income			
rent/unit	\$1,100	15% lower	\$935
rent/parking space	\$0		\$165
unit and parking income	\$1,100		\$1,100
rent cap	\$1,100		\$1,100

In this example, for a given budget, unbundling can allow 18% more units and 15% lower rents.

In the example above, a proposed project would reduce parking and increase units proportionately. The project charges below the rent cap for units but builds more units, resulting in the same income. The additional units are built on land converted from parking. Parking is rented separately from units, resulting in more total income from the same site. The parking cost of \$165 is affordable because the unit rent is \$165 lower than the bundled amount.

New federal regulations may be helpful to achieve unbundling, but they may not be necessary. As shown, there are ways to unbundle while still respecting the rent cap that will achieve the same or even more income than a bundled project. Nothing in federal law prohibits a housing agency from charging separately for parking. If CTCAC has any doubt about this, it should research the law. State and federal tax credit law require only that rents, bundled or not, not exceed the rent cap.

Managing Risk

There is no generally accepted way to determine how much parking is needed, but risk can be managed. Once an unbundled project is built, there may be too little parking and a prospective tenant would not be able to get a parking space. Given typical waiting lists, a second tenant who did not need the space would come in. The second tenant might not have a car, or might be able to park off site somewhere, or have different mobility needs, as many low income families do not own a car. The second tenant would benefit from a unit rent well below the rent cap. Unbundled tenants would contribute to mobility by alternative means, reinforcing businesses that are within walking distance and making transit more cost-effective. Tenants might be inspired by the low rent to change their mobility and not need parking, and would have some funds to do so from their savings on parking.

Unbundling with too little demand for parking is a problem because of less income than planned. However, any significant area of unused spaces could be converted to housing. This would not only generate more income but also create more housing. The reasoning is similar to planning a future project as shown in the table above, with the added advantage that the agency already owns the land—essentially making this free land. Project planning can, in fact, include a site plan that anticipates conversion and building a few more units if the parking space is not needed.

Unbundling requires judging how much parking is really needed, with a risk of providing too much or too little. This risk provides an incentive to provide the right amount of parking, but how much is enough is difficult to determine. The higher price for parking reduces demand, but by how much? From an underwriting perspective, erring on the side of less parking and more units has less risk.

Use other funding for parking

Some projects unbundle by using funds from sources other than tax credit funds, so the rent cap does not apply to the parking. The concept of unbundling remains the same, but the overall cost is higher combining unit rent and parking rent. With unit rents below 30 percent of income, tenants still get a break compared to market rents. In the case discussed below, the agency had outside funding to be able to absorb costs imposed by excessive regulatory requirements.

The Frederick

A great example of a successful project that chose to unbundle is The Frederick in Arlington, VA., which avoided federal regulations by obtaining separate funding for its parking.

The AHC housing agency made a political decision to build more parking than it thought would be needed in order to overcome neighborhood and city opposition. The Frederick has 181 unbundled structured parking spaces. In 2010 the parking rental rate was \$50 per month and in 2015 that was still that rate. About 62 spaces went unrented in 2010 and 37 were still unrented in 2015. The parking space use rate was 0.70 parking spaces per bedroom. The Frederick is in an area of Arlington where there is little need to own a car.

Despite this, the Frederick was able to cover its costs. Parking was excluded from the Frederick's basis for tax credits for the capital cost of construction. A major reason to exclude parking from the basis where it is usually included was that it was so expensive that the cost per unit plus parking would not compete well for 9 percent tax credit financing. Also, other funding sources were found to finance the project. Once parking was excluded, it became possible to charge separately for the parking.

Further, the AHC was able to diversify its income. Residential rent, commercial rent, other income sources (9% tax credit equity, construction loan, mortgage, AHC equity, a note/loan from seller), all contributed to making up for the modest parking fee income. For more information on the Frederick please reference HAPA's *Parking! Parking Research Report*.

Unbundling ideas for housing agencies

There are some meaningful steps housing agencies could take. In an existing project, they could make some estimate of what a reasonable parking rent would be based on market rates. Then, they could poll tenants to see if any want to unbundle to reduce their rent by the stated amount. Some are likely to jump at the chance to get a lower rent. If only a few want to unbundle, an agency might discover that they are able to manage the loss of parking rent out of current cash flow. If too many, the agency could search for outside sources of funding and keep a waiting list for those who would like to unbundle, pending getting the necessary funding.

Additionally, a housing agency could rent a freed-up space to a tenant who needs an extra space above the one with their bundled rent. The tenant would pay extra, and both space-renting and unbundling tenants are better off.

Unbundling ideas for CTCAC

Without real popular support for an idea that goes against the grain of political culture, incremental reform and outside pressure on inert agencies are important. Housing agencies lack information about how to unbundle and still be profitable. Without much stress, CTCAC can research, educate, and reward unbundling.

A Pilot Unbundling Program

A pilot unbundling program would provide some answers about how to make unbundling work. A pilot program would need a small budget to promote unbundling in a proposed project, which would eliminate risk and solve underwriting problems. CTCAC could research a prototype pro forma demonstrating how unbundling would work. Such information would educate, guide, and encourage agencies to propose unbundling.

The pilot program could help an existing project in an area with walking and transit support for alternative mobility. If a few tenants opted not to park on-site, they would save money and the housing agency would get less. The agency within limits could be able to handle some reduction in cash flow like unit vacancies. The pilot program would backfill the housing agency for income loss above an agreed level. Pilot funds in practice might not even be needed.

CTCAC should establish a vacancy rate above which action should be taken, such as building on unused parking. A reasonable vacancy rate for street parking is 15 percent, because it is more volatile and on an hourly basis. A high rate helps ensure vacancies for high demand periods. A reasonable rate for residential parking is 5 percent, because the demand for the space is more stable and on a monthly basis. This rate is used for parking and unit rent by rental housing management agencies like Alliance.

Regulatory Agreements

CTCAC Regulatory Agreements may conflict with state GHG reduction goals by impeding unbundling. Many Regulatory Agreements require income from unneeded parking to meet income requirements, which can only be collected by unbundling. CTCAC could help housing agencies negotiate Regulatory Agreements with their cities to allow for unbundling, which would reduce GHG and lower tenant unit rents.

Reward Unbundling

In addition to rewarding housing applications with reduced parking, CTCAC should also reward projects that unbundle parking. CTCAC should study revising tax credit applications to give points for projects that unbundle, that pay for parking with sources other than tax credits, and that have the potential to convert parking into housing. The CTCAC could still fund projects that were bundled, but only after it had funded the unbundled projects with more points. Housing agencies in progressive cities with support for non-car modes are likely to act. They can estimate some reduction in parking demand based on current experience in the project area and come forward with proposals. (The section above on Manage Parking Off-Site To Stop Overflow is equally relevant for unbundling.)

9. Incentives For Alternative Mobility

Alternative mobility consists of walk, bike, transit (urban rail, city bus, circulators, shuttles and inter-city bus), and public cars (car share, car rental, taxis, and app hailed rides like Uber and Lyft). Relevant policies would directly support these modes and also incentives for their use, like eco-pass (transit pass) and unbundling.

Many cities are implementing new mobility incentives. Seattle is restricting parking supply to reduce housing costs and traffic, and may require housing agencies to offer tenants alternative mobility options such as transit passes, car-share and bike-share membership. Seattle is also regulating app hailed services and expanding parking for car share in support of the cities move towards more effectively utilizing alternative mobility.¹⁴

California Proposition 1C in 2006, administered by the Department of housing and Community Development (HCD), funded the Transit-Oriented Development housing Program

¹⁴ Eric Jaffe, "Seattle to Buildings: Give Tenants Transit Passes, Not Parking Spots," *The Atlantic*, May 2015.

(TOD). It had a goal of reducing GHGs and awarded points for elements of alternative mobility, i.e., free or discounted transit passes to residents; shared parking among different users and dedicated spaces for carshare vehicles. The Strategic Growth Council has the Affordable Housing Sustainable Communities (AHSC) Program whose application also uses points and has a number of ideas CTCAC could use.

Incentive Ideas for CTCAC

Points for mobility reform. CTCAC should offer points that reward on-site and off-site alternative mobility strategies, and coordinate the points with the SGC. Points could be given for the percent of non-auto trips as a percent of all trips if above 50 percent. Points could be given for VMT reduction using the analysis that CARB applies to AHSC projects. The CTCAC Application could have a 5 percent basis boost for alternative mobility strategies that demonstrate reduction of VMT and reduce transportation costs for low income families.

Points could be given for improved walking and bicycling routes to important off-site destinations, for eco-pass, unbundling, and curb space for public autos, vouchers for rides for health care, and vouchers to guarantee a ride home if transit is not running.

The current CTCAC 2017 application for 9 percent tax credit financing lacks consideration of many mobility issues. Yet surprisingly few adjustments are needed in the CTCAC application to implement mobility reform. Most should not be controversial. Ideas for revisions to the Application are shown in a spreadsheet based on the CTCAC application.¹⁵

Build on vacant parking. CTCAC could create an application designed to encourage building on waste pavement. If a regulatory agreement prevents such conversions, it should be renegotiated. The existing application could add points for a site plan that facilitates conversion of unneeded parking to units.

Coordinate with local government. Cities often have excessive parking requirement but also have Climate Action Plans that could be improved to reduce subsidies to driving and help affordable housing.

Improve state policy. CTCAC could ask the Office of Planning and Research (OPR) to study all the issues raised in this report, including coordination of state affordable housing policy to reduce GHG. The OPR web site at <http://www.opr.ca.gov/> has nothing I can find on this issue. OPR could advise not only CTCAC but also SGC, COGs, MPOs and localities. OPR could draft a model ordinance for cities on these issues. CTCAC has a role, but the problem is much bigger.

10. Progress: The Strategic Growth Council

Over the last two years, the Strategic Growth Council (the SGC) has made progress on mobility issues. In June 2015 the SGC funded three projects with parking structures costing about \$5 million for about 200 spaces: The 19th Street Senior Apartments, Hotel Fresno, and Riviera Family Apartments. The SGC has not made public details about specific parking costs, which may be difficult to find since they are usually lumped in with other construction costs. However, HAPA estimated the parking costs and found that as a result of funding parking, the

¹⁵ www.dropbox.com/s/n84wly5nwhmmuo5/3%20CTCAC%20Mobility%20Initiative%20Report.docx?dl=0.

94th Street and International Boulevard project in Oakland with 59 affordable housing units was just below the cut off line and did not get funding.

Following this and other events, in an effort to allocate funds more effectively, the SGC approved revised Guidelines for the Affordable housing and Sustainable Communities Program in December 2015. The SGC also proposed reducing funds for parking for 2016, including capping spaces at one per unit. The March 2017 SGC Guidelines will no longer allow costs associated with parking except for electric vehicle charging station infrastructure (bolding added):

“(c) Ineligible costs include all of the following:

...

(5) All costs associated with automobile or motorcycle **parking** (excluding electric vehicle charging infrastructure that may be located at a parking spot).”¹⁶

There is a problem when affordable housing projects funded by SGC are also funded by CTCAC. Though the SGC may not fund parking directly, there is nothing preventing the CTCAC from funding parking of projects also funded by the SGC. The revisions the SGC has made to its application cannot be fully effective if the CTCAC continues to provide a basis boost for parking structures or unnecessary parking. (The SGC is budgeted to get over \$300 million to award next June 2017.)

11. Need for Outside Intervention

The CTCAC system is lacking any real incentive to reform. Though the current system is economically inefficient, environmentally destructive, and inequitable, tenants get such a deal they don’t care if they get parking they don’t need; corporations get a tax break regardless; and the agencies provide needed affordable housing.

On a broader scale, the status quo is enmeshed within our culture’s contemporary auto dependency. CTCAC probably cannot achieve mobility reform on its own. There needs to be a greater push from the state, COGs, and MPOs for education, advocacy, and policy that persuades the CTCAC to change.

www.vtpi.org/lewis_TCAC.pdf

¹⁶ SGC, *Affordable Housing and Sustainable Communities Program*, 2016-2017 Program Guidelines, March 8, 2017, p. 13, Application worksheet, line 922, <http://sgc.ca.gov/Grant-Programs/AHSC-Guidelines.html>.