

Learning from Measure A1: New Measures and Innovations

An issue brief from the Home Is Here outreach and engagement effort at Alameda County Housing and Community Development

Introduction

In 2016, Alameda County voters passed the Measure A1 affordable housing bond, which ultimately raised \$580 million. Over the last decade, our County has invested \$425 million from this bond in affordable rental housing, building more than 4,000 new affordable homes, including over 1,300 for households exiting homelessness.

\$580M

raised by the Measure A1 affordable housing bond

\$425M

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4,000+

new affordable homes, including 1,300+ for households exiting homelessness

The next generation of investment in housing will need to build on the successes of Measure A1 and the lessons learned as the bond was implemented. That is why our County is working to understand the impact of the investments we have made and design new tools to enable effective action. This paper begins to lay out our findings from an analysis of the financing of our A1 projects, the methodology for the new embedded subsidy metric we constructed to illustrate the value of an affordable home, and the new approach that will create affordable housing faster, in more places, and at a lower cost.

Braiding Funding

No affordable housing project has just one source of funding; it takes the combination of a variety of public and private sources braided together to get a project off the ground. Building this capital stack has been a necessary part of construction since the early 1980s, when the federal government reduced direct funding for housing production by 75%. In Alameda County, our community has stepped up to fill that gap with sources like Measure A1 and Measure W. When deploying funds from these measures, we have to choose between funding a small set of projects with large commitments or a larger portfolio with smaller individual commitments. To maximize the impact and number of homes built, Measure A1 prioritized the latter approach.

Measure A1's strategy prioritized maximizing outside investment into County projects, but this approach came with a cost for each additional source of funding required: each additional source of funds comes with

its own application process, administrative reporting requirements, and requirements to fulfill. All of these steps to get additional funding add expense and delays to a project, on average about four months and \$20,460 per unit, according to a report published by the Turner Center for Housing Innovation.

Applied to the Measure A1 portfolio, these friction costs added up for each project. On average, an A1 project delivered 76 homes for \$60.4 million by braiding 7.1 layers of capital, the majority of which (5.4) were from public sources. Using the average marginal cost of each additional layer from Turner’s work, the additional process required to secure each public funding layer may have increased the total development cost of the average A1 project by roughly \$4.4 million, or about 7 percent, as well as adding around ten and a half months of assembly time before construction could begin. Across all 56 developments that received A1 funds, the estimated cost of layering local, state, and federal funds totals roughly \$246 million.

7.1

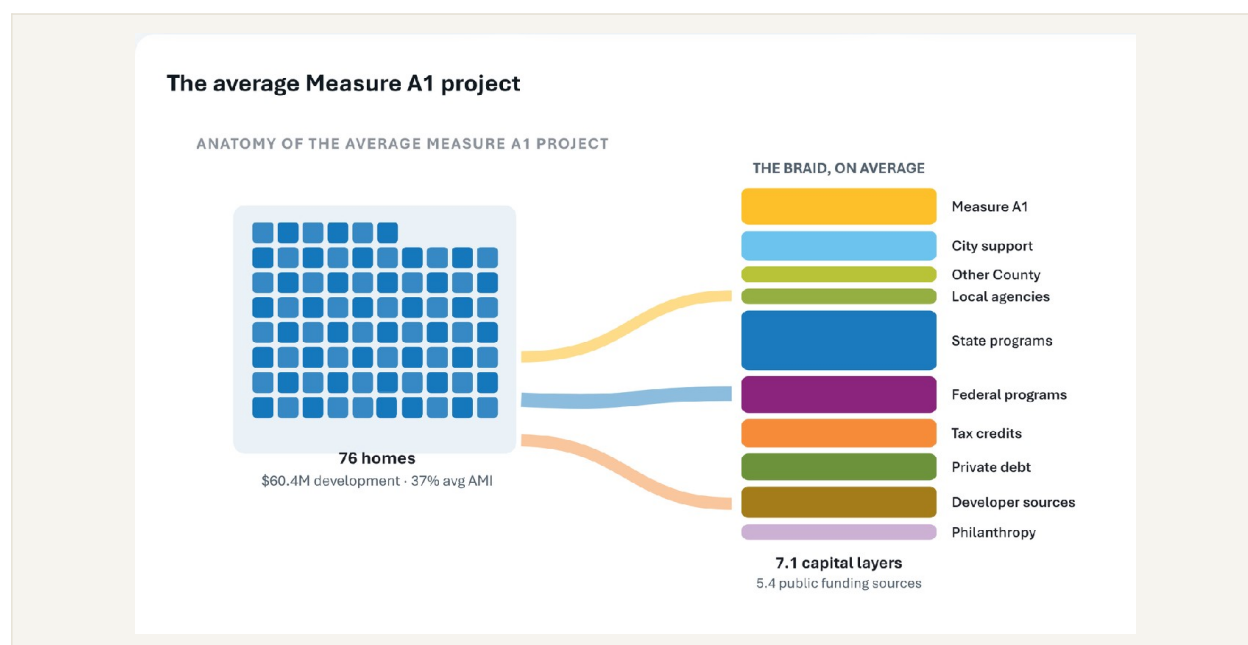
capital layers braided by the average A1 project, 5.4 of them public

~\$4.4M

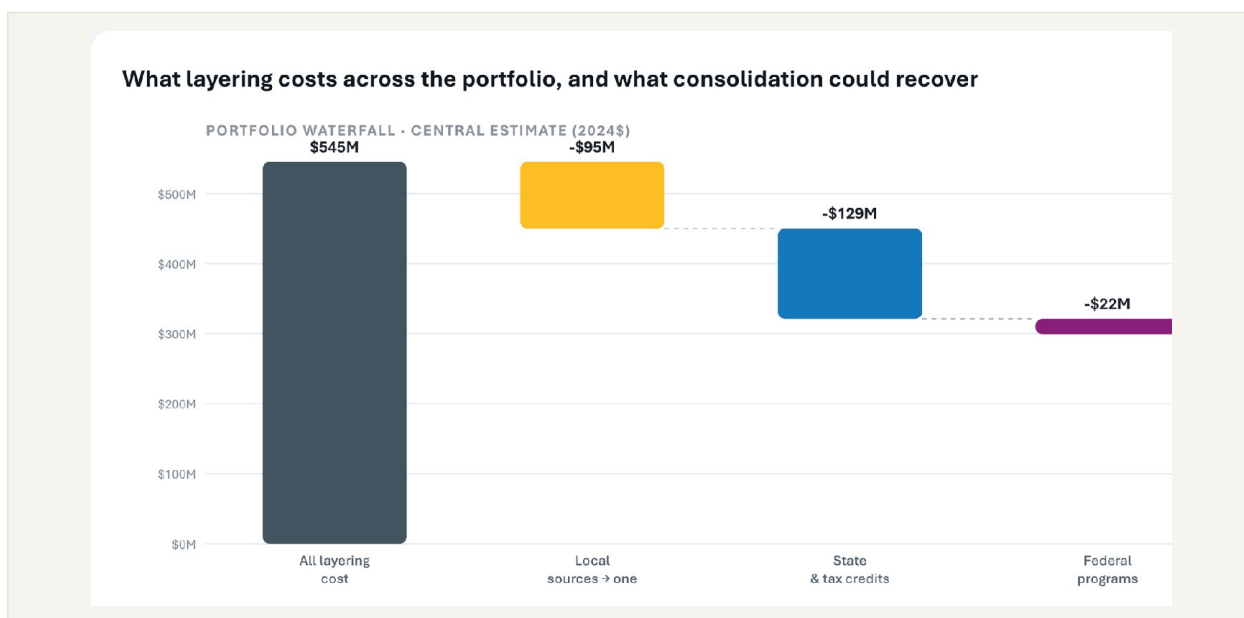
estimated added cost of public layering per average project, about 7 percent

\$246M

estimated cost of layering local, state, and federal funds across 56 developments



The average Measure A1 development, by capital layer. Source: HCD Cost of Complexity model, applying Turner Center (2025) coefficients to Measure A1 project data.



Estimated cost of capital layering across the 56-project portfolio, and how much of it sits in local, state, and federal funding layers. Source: HCD Cost of Complexity model. The first bar is the estimated cost of all capital layering: every source beyond a hypothetical single award, public and private. The bars that follow show what consolidating public funding at each level could plausibly recover.

This understanding of our projects' funding should not be taken to mean additional funding sources are bad in general; it is precisely Measure A1's ability to bring in additional funding that made it possible for our bond to produce as many units as it did. Additionally, the same specific requirements that can make these funds difficult to get can also ensure they target specific populations who need tailored services. However, putting a dollar value on the friction costs of our current approach should make us consider how to maximize the impact of public-sector funding in the future. Recently, the State of California has recognized the need for such process-level reform and has initiated a restructuring and consolidation of the application process for State funds. Similar efforts at other levels could further reduce the cost of securing funding.

Embedded Subsidy

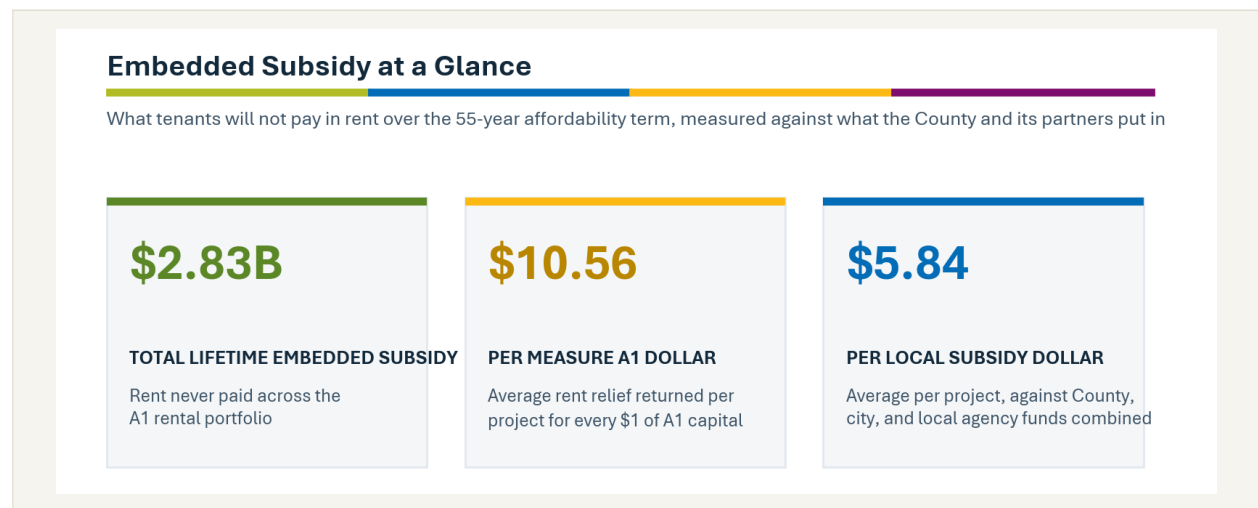
For HCD and most affordable housing agencies across the country, funding decisions have historically been guided by minimizing the local investment from a single source in a given project and 'leveraging' limited funding with other sources: a "Bang for Your Buck" approach. Deeper affordability levels and more units are desirable, especially if the amount invested by the housing agency supporting the project is small. This logic is embedded in the original Measure A1 implementation policies, which direct that bond investments must "produce the largest number of units possible."

While useful for guiding funding, this strategy makes it difficult to distinguish between the cost of producing housing and its value in terms of the affordability produced. Not all affordable units cost the same amount to produce, nor do they all produce the same amount of value in terms of the households served. To account for the full value of our housing investments, HCD has developed a new framework: embedded subsidy. Embedded subsidy is a measure of the value of a tenant's rental savings relative to fair market rents over the full affordability restriction period of a property, typically 55 years.

EMBEDDED SUBSIDY IN PLAIN TERMS

In plain terms: over the life of an affordable housing project, the low-income tenants in that building will collectively save a calculable sum of money in rent relative to what the private market would otherwise charge them. Embedded subsidy is that amount.

This measure builds on the work of the California Debt Limit Allocation Committee, the state authority that awards tax-exempt bond financing for affordable housing, which uses a metric similar to embedded subsidy as a tiebreaker in scoring, and Oregon's Affordable Housing Tax Credit program, which requires that tax credits directly finance lower rents. These programs reflect a growing recognition that the rent savings generated by affordable housing investment are a form of measurable public value that belongs in the accounting alongside costs.



Ratios are averages of project-level embedded subsidy ratios across the modeled portfolio, nominal and undiscounted over the 55-year term. Source: HCD subsidy leveraging model (Clean Embedded Subsidy Model).

This metric represents a few valuable data points. As an additional key metric alongside cost-per-unit and financial leverage ratios, embedded subsidy contributes several things those measures cannot. It emphasizes what A1's program design rewards: depth of affordability and length of restriction. A unit at 20% of Area Median Income (AMI) for 55 years generates far more embedded subsidy than a unit at 80% AMI for 15 years, precisely because the former delivers far more public value. Embedded subsidy also clearly puts affordable housing in terms of its direct benefits to tenants: each dollar they save in rent is more money in their pockets. This money supports their lives and financial security, while also stimulating the local economy every time it is spent.

\$10.56

in rent savings for tenants over 55 years for each \$1 of A1 funding, on average

\$2.83B

lifetime embedded subsidy across the modeled rental portfolio

55 years

typical affordability term over which embedded subsidy is measured

This framing allows decision-makers and the public to clearly discuss affordable housing investment in terms of its impact on our community, as everyone can understand the idea that \$1 of A1 funding invested now in a property will save a tenant \$10.56 in the long run. The measure reframes A1 capital contributions as public investments generating measurable long-term returns, shifting the conversation from how much we spent to what we produced.

SHIFT

In response to the successes and challenges HCD found during the investment of Measure A1, we have developed an alternative approach focused on planning streamlining, preapproved designs, innovative partnerships, and simplified financing. The Scalable Housing Infill Funding Toolkit program, or SHIFT, is Alameda County's approach to building affordable housing faster, in more places, and at a lower cost.

SHIFT will use a variety of proven policy innovations sourced from the Bay Area's extensive community of housing developers, funders, and policy experts to support two pilot programs, one focused on small-scale, affordable multifamily housing and the other on accessory dwelling units (ADUs) for senior homeowners.

The Multifamily Development Pilot Program is designed to build deed-restricted affordable rental housing, like Measure A1. However, while Measure A1's rental development funds were focused on large-scale, tax-credit financed projects, the multifamily pilot is intended to build smaller-scale projects, the kind of housing often known as missing middle. These kinds of four- to sixteen-unit housing developments were once a common part of our development ecosystem, but have become increasingly difficult for private or nonprofit developers to build. Despite this difficulty, missing middle is an ideal way to add gentle density to largely built-out areas and an untapped market for low-income housing. SHIFT will provide a per-unit subsidy and streamlining tools to reopen the path for this kind of development and produce units affordable to households making 60 to 80 percent of AMI.

The Senior ADU Pilot Program creates housing for a population that Measure A1 did not target: seniors who own a home but may be unable to age in place or downsize by themselves. Many of these households may have significant household equity that they want to preserve but lack the income to undertake necessary repairs to make their home better suited as they age. These households may also be facing a difficult choice: continue to live in a home that is too big for them but is part of their community, or downsize and lose access to the neighborhood they have come to know and love. SHIFT aims to enable aging in place by providing funding and project administration to build accessible two-bedroom ADUs alongside a senior's existing home. Using the State's Senate Bill 9 (SB 9) lot-split process, this new home will become its own parcel where the senior can live while the existing residence is sold to repay construction costs and recapitalize the senior's equity. By freeing up housing that is currently underutilized, each investment by the program creates new housing for seniors as well as making existing housing available to new families.

Both development programs utilize and feed back into SHIFT's toolkit by testing our range of technical assistance and cost-saving methods in real-world situations. In December, we selected Inspired ADUs to act as the program design consultant, develop the program streamlining tools, and develop replicable architectural designs for multifamily projects. This is the first step down a path of continuous iteration, which we hope will yield a library of adaptable designs and reliable cost estimates. We anticipate that, using the full

toolkit of cost-saving practices, SHIFT projects will produce affordable housing for at least 25 percent less per unit than the Bay Area standard (currently around \$850,000 per unit for new affordable construction).

The scale and approach of these pilot programs offer a variety of important advantages over traditional affordable development:

- ▲ **Wider Pool of Partners:** Our capacity to create more affordable housing is often limited by the finite capacity of large nonprofit developers to take on new hundred-million-dollar projects. SHIFT imagines a more flexible and predictable process that is more accessible for emerging developers, independent property owners or managers, and smaller nonprofits.
- ▲ **Reliable, Upfront Funding:** Projects funded by SHIFT will receive a standard, upfront, per-unit loan at the start of development, which will be their only source of public funds. Instead of applying or reapplying for the dozens of funding sources usually needed to get a large-scale, tax-credit-financed, affordable housing project off the ground, developers will have their entire public subsidy reliably committed at the start of development.
- ▲ **Streamlined Development:** SHIFT projects will be able to use the program's full toolkit of preapproved designs, streamlining methodology, technical assistance, and prequalified developer partners to further speed up development and reliably estimate project costs.
- ▲ **Smaller, Undervalued Parcels:** SHIFT reopens the path for affordable infill development by focusing on smaller-sized projects well-suited to a wide variety of undervalued and underutilized parcels.

NOW OPEN

Right now, we have a Request for Qualifications (RFQ) open for developers to prequalify as part of a pool of potential SHIFT developers. Later this year, we will launch the first funding opportunity for SHIFT, which will include opportunities for developers who qualify under the RFQ to seek funding for their own projects and propose projects on publicly owned land that is well suited to SHIFT.

Stronger and thriving communities start with a safe and secure place to call home.

Questions or ideas: Stefani Katz, Stefani.Katz@acgov.org

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