



2015 \$310 Million Affordable Housing General Obligation Bond Report

EXECUTIVE SUMMARY

Mayor Edwin Lee has made creating and preserving housing affordable to a wide range of San Franciscans a key focus of his administration. City residents have consistently shown strong support for these measures, including the voter-approved Housing Trust Fund (2012) and Proposition K (2014), the Mayor's 7-Point Housing Plan (2014), and the Re-Envisioning of Public Housing (2013). In 2015, San Franciscans will have an opportunity to direct more resources to these vital efforts by passing a funding measure that specifically addresses a broad range of housing needs.

The measure, a \$310 million General Obligation Bond, will create new affordable housing units, speed up the rebuilding of public housing, protect existing residents in rent-controlled housing, and expand rental and homeownership opportunities for our city's workforce, including first responders, educators, non-profit workers, and service employees. Acknowledging the City's well documented affordability gap for both rental and ownership housing across a range of income levels,¹ the capital investment in housing made possible by the 2015 Housing Bond will help to stabilize existing neighborhoods and increase the livability of our city. Increasing access to safe and affordable housing will, in turn, promote diversity, social equity, and economic vitality – cornerstones that support our thriving city.

The 2015 Affordable Housing Bond proposes four categories of investments, each of which supports a range of incomes:

- Public housing;
- Low-income housing; and,
- Middle-income housing; and,
- Targeted affordable housing investments based on the Mission Action Plan.

Table 1: Program Categories and Funding Ranges for the 2015 \$310 Million General Obligation Affordable Housing Bond

Program Categories	GO Bond
Public Housing	\$80 million
Affordable Housing (up to 80% AMI)	\$100 million
Middle-Income Housing (80% AMI and above)	\$80 million
Mission Area Plan	\$50 million
Total	\$310 million

¹ The 2014 Housing Inventory Report is available online at: http://www.sf-planning.org/ftp/files/publications_reports/Housing_Inventory_2013.pdf (April 16, 2015).

The 2015 Affordable Housing Bond will relieve pressure by:

- Investing in neighborhoods;
- Developing and acquiring housing for a broad population, from families to seniors; transitional-aged youth to single working adults; and veterans to disabled households; and,
- Meeting the need through a range of activities, including new multi-family construction, acquisition of existing apartment buildings, SRO rehabilitations, and all other efforts that will effectively increase the affordable housing supply.

The 2015 Affordable Housing Bond was developed within the framework of the City's Capital Plan, and will not result in higher property taxes. Because of the importance of fiscal stewardship and in order to keep borrowing costs low, the City has adopted strict constraints in its Capital Plan on the use of long-term debt financing in order to avoid placing an increased burden of property tax on future generations. For this reason, voter-approved GO bonds like the 2015 Affordable Housing Bond are only proposed in cycles that are dependent on the City's retirement of existing debt and growth of the property tax base. This fiscal restraint creates an opportunity to issue the 2015 Housing Bond without any increase to property taxes.

The City's Capital Plan places an emphasis on accountability and transparency. Robust fiscal responsibility measures have been incorporated into the 2015 Affordable Housing Bond proposal, and include:

- Bond ordinance language that specifies project categories that can be funded with the bond proceeds;
- An independent citizens' oversight committee to ensure that the funds are allocated as outlined in the City's Capital Plan. This committee is open to the public, and provides assurance that the funds are spent in accordance with the express will of the voters.

NEED FOR THE PROJECT

The well-documented housing affordability gap that has arisen and expanded in the local housing market makes it a challenge for the City to ensure that economic diversity can be maintained. These high housing costs inhibit healthy, balanced economic growth regionally – individuals and families are increasingly locked out of the local housing market and forced to leave the city and take on increasingly long employment commutes. In recent years, the impact of this affordability gap has expanded beyond low- and moderate-income households, which traditionally could benefit from some form of governmental assistance. Strong housing production and the availability of housing affordable to a broader range of households has therefore become more important than ever. The speed at which affordable housing is produced is also critically relevant, and the City is coupling its housing financing efforts with other process-related changes to facilitate affordable housing's more efficient development.

The 2015 Affordable Housing Bond will help to address the affordability gap, as well as the destabilization that occurs when market pressures in specific neighborhoods result in driving long-time residents out of the City. Further, through prioritized spending, the 2015 Housing Bond will help the City to provide housing for the specific income categories identified in the Regional Housing Needs Assessment.

Affordability Gap

San Francisco’s Area Median Income (AMI) in 2015 is \$71,350 for a single-person household, or \$101,900 for a family of four. While those figures are among the highest in the nation, it’s not enough for these households to afford market-rate housing. A studio or one-bedroom that rents for \$1,784 per month is considered affordable to a single person earning San Francisco’s average median income, while a monthly rent of \$2,293 is considered an affordable monthly rent for a two-bedroom apartment for a family of three earning the area median income. See the chart below for additional affordable rent information over a range of incomes:

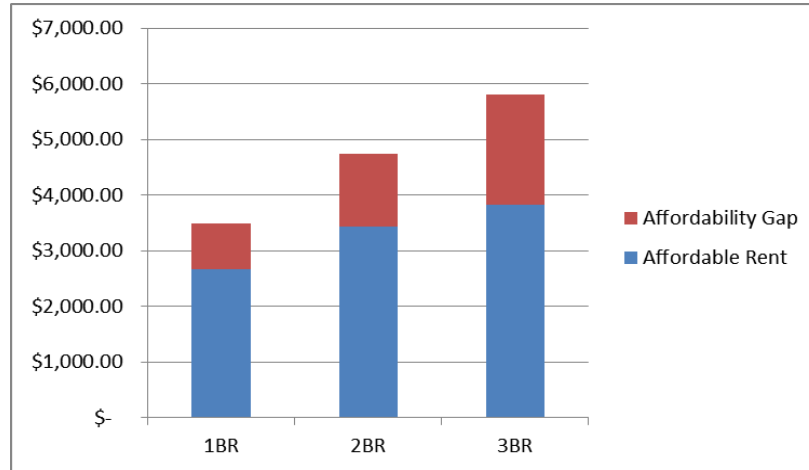
Household Size	100% AMI	Affordable Rent	120% AMI	Affordable Rent	150% AMI	Affordable Rent	2015 MARKET RENT (NON-RENT-CONTROLLED)*
1	71,350	1,784	85,600	2,140	107,050	2,676	2,695 (studio)
2	81,500	2,038	97,800	2,445	122,250	3,056	3,495 (1BR)
3	91,700	2,293	110,050	2,751	137,550	3,439	4,750 (2BR)
4	101,900	2,548	122,300	3,058	152,850	3,821	5,800 (3BR)

**Average available market-rate apartment rent, July 2015, Zumper*

San Francisco vies with New York for the unfortunate distinction of having the country’s most expensive housing market. The result for the City’s low- and middle-income residents is often over-crowding, substandard conditions, and/or managing a heavy housing cost burden. The difference between an affordable housing cost and market-rate housing cost is commonly called the housing “affordability gap.” San Francisco’s housing affordability gap exists for both rental and ownership housing.

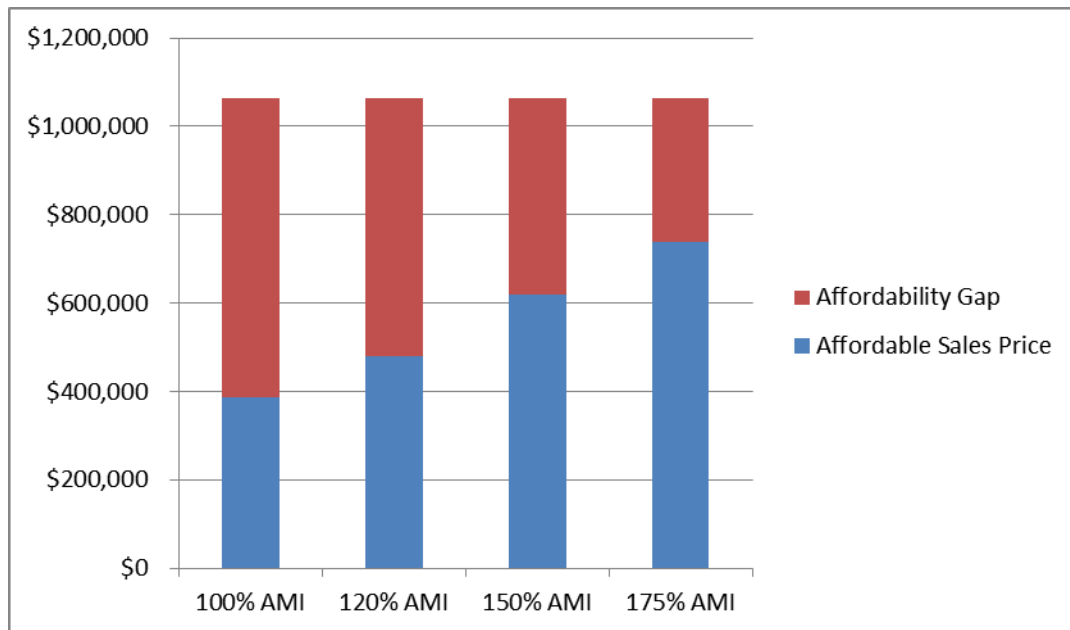
Low-income households face a significant gap between what they can afford and the price of available housing; however, that gap also exists for middle-income households. The illustration below highlights that the rental affordability gap extends even to 150% AMI; the gap is significantly greater for households earning less than 150% AMI.

Table 2: Rental Affordability Gap up to 150% AMI (2015)



Homeownership opportunities are out of reach for the vast majority of San Francisco households, including low-income, middle-income, and above middle-income residents. Only households earning well above 175% AMI (\$160,475 for a household of 3) are able to afford the average purchase price of a home in San Francisco. The illustration below describes the average homeownership affordability gap facing residents at four income levels, all of which are above the levels that have traditionally been eligible for affordable homeownership opportunities.

Table 3: Homeownership Affordability Gap up to 175% AMI (2015)



The documented housing affordability gap and excessive housing cost burdens highlight current San Franciscans' need for more affordable housing. San Francisco must also grapple with the need to accommodate the housing demands of an increasing population.

The Association of Bay Area Governments (ABAG) provides estimates of housing need through its Regional Housing Need Assessment (RHNA), conducted every 7 years. While San Francisco’s zoning code allows for even more residential development than is required by our RHNA allocation, limited funding resources and the high cost of housing development mean that the City’s supply of affordable housing has not kept pace with demand. The need is particularly acute for moderate-income households, for whom there is no federal or state financing programs (such as low-income housing tax credits, which cap eligibility at 60% of AMI) that the City can leverage with its own subsidies.

The table below summarizes the RHNA allocations for San Francisco for 2007-2014, and shows levels of production achieved through December, 2014:

Table 4: Progress toward RHNA Allocations (2007-2014)

Income Level	Percent AMI	Target	Actual Production	Actual as % of Target
Very Low	<= 50%	6,589	4,118	63%
Low	50% to <= 80%	5,535	1,663	30%
Moderate	80% to <= 120%	6,754	1,283	19%
Above Moderate	Over 120%	12,315	13,391	109%
TOTALS		31,193	20,455	65.60%

PROJECT DESCRIPTION

The 2015 Housing Bond proposes four categories of investments, each of which supports a range of incomes:

- Public housing;
- Low-income housing;
- Middle-income housing; and
- Targeted investments based on the Mission Action Plan.

Households in all of these categories suffer from too few options for affordable housing. The bond will provide funding to speed the production of new affordable housing. The bond will stabilize neighborhoods by geographically targeting investments to acquire rent-controlled buildings in which tenants are at risk of eviction. The bond will allow a rapid response to new acquisition opportunities as they arise. And the bond will ensure safe housing through rehabilitation projects across building types.

The types of projects that the 2015 Affordable Housing Bond will fund include the following (*with photos illustrating similar, previous development made possible with City financing*):

- I. **Geographically-targeted construction of new affordable rental housing.** Bond funds will be used to finance and construct new affordable rental housing according to certain geographic and other priorities, as follows:



- a. Location within high-impact neighborhoods with acute affordable housing needs and with other economic disadvantages, for example, Neighborhood Revitalization Strategy Areas (NRSA), as established by the U.S. Department of Housing and Urban Development (HUD);

Julian & Raye Richardson Apts., Fulton & Gough Streets, 120 units for formerly homeless individuals

- b. Location within transit-oriented locations, so that low- and moderate-income households' combined housing/transit expenses can be minimized;
- c. The ability for projects to maximize the use of additional federal, state, and private funds, so that City dollars go as far as possible.
- d. The ability to commence construction with speed and efficiency, e.g., development of "shovel-ready" sites.



180 4th Street, 150 family units (photo: Bruce Damonte)

- II. **Housing programs that serve vulnerable San Francisco residents.** Bond funds will prioritize housing development, preservation, and rehabilitation programs that serve populations that include:

- a. Low-income working families;
- b. Veterans;
- c. Homeless individuals and families;
- d. Seniors;
- e. Disabled individuals;
- f. Transitional-Aged Youth.

Bayview Hill Gardens, 72 units of housing for formerly chronically homeless individuals and families



- III. **Acquisition of Existing Rental Housing at Risk of Converting to Market-Rate Housing.** Bond proceeds may be used to acquire, rehabilitate, and preserve existing rental housing in order to prevent the displacement of long-term residents and to

prevent the loss of affordable rental stock. This acquisition program may prioritize sites based on the following criteria:

- a. Immediacy of risk of conversion to market-rate;
- b. Location within a NRSA or neighborhood with a documented risk of evictions;
- c. Project size and unit mix.

IV. Repair of Dilapidated Public Housing. Bond funds may be allocated to public housing replacement and rehabilitation, including underlying infrastructure improvements. Public housing repair, rehabilitation, and replacement projects may be prioritized based on the following criteria:

- a. Greatest or most urgent capital needs;
- b. Capacity and feasibility to add net new housing units;
- c. Longest time to completion absent increased financial investment;
- d. Reduction of adverse community impacts that are caused by long-term phased development plans.



Hunters View Public Housing, pre-transformation work



Hunters View Public Housing, post-transformation work

V. Creation of a Middle-Income Rental Program. Bond funds may be allocated to support the creation of permanently affordable rental units designated for middle-income households that are currently not served by the City’s traditional affordable housing programs. Bond funds used for the creation and support of middle-income rental units will prioritize family-sized units. Further, in order to facilitate a “housing ladder,” first time homebuyer programs (such as the Down Payment Assistance Loan Program) may target outreach efforts to households that occupy deed restricted middle-income rental units. The Middle Income Rental Program will target two categories of households: first, those earning between 80-120% AMI, which have a significant affordability gap at all unit sizes. Second, bond proceeds may be used to support larger families seeking 2BR-4BR units, which also have a demonstrated affordability gap in certain neighborhoods. For this latter category of funding, the 150% AMI affordable housing price must be at least 20% below the market-rate housing cost for eligibility.

- VI. **Creation of a Middle-Income Homeownership Program.** Bond funds may be used to expand existing and develop new homeownership programs to assist San Francisco households earning up to 175% of Area Median Income. Homeownership programs targeted to middle-income households may be structured as revolving loan pools in order to maximize the benefits into the future.

- VII. **Renewal and Expansion of the Teacher Next Door Program.** Bond funds may be used to assist San Francisco’s elementary, secondary, and post-secondary educators purchase their first homes.

PROJECT CONSISTENCY WITH GENERAL PLAN

The proposed GO Bond is consistent with the Housing Element of the General Plan, as well as with the eight priority policies set forth in Planning Code Section 101.1 of the Planning Code.

AFFORDABLE HOUSING INVESTMENTS: 20-YEAR PROJECTED TIMELINE

The table below places the proposed GO bond in the context of San Francisco’s full suite of affordable housing investments as projected for the next 20 years, broken into five year increments:

Table 5: The City’s Affordable Housing Investments – 20 Year Projected Pipeline.

Source (\$M)	1st 6 Years (to FY19-20)	2nd 5 Years (to FY24-25)	3rd 5 Years (to FY29-30)	4th 5 Years (to FY34-35)	20 Year Total
November 2015 Bond	310	-	-	-	310
Housing Trust Fund (includes \$50M in accelerated HTF, and additional \$25M)	221	179	227	267	894
General Fund	108	55	53	55	271
Tax Increment (OCII)	164	211	157	62	594
Fees Paid By Developers	277	70	113	60	519
Federal/State/Other Sources	117	46	32	32	226
Totals*	1,197	560	582	475	2,814

**Existing funding sources serve households up to 120% AMI only, and almost exclusively serve households earning less than 60% AMI.*

PROJECT SCHEDULE

The project deliverable for the 2105 Affordable Housing Bond is affordable housing for San Franciscans. The table below summarizes the proposed allocations for the bond, and illustrates the breadth of programs that will be funded and accelerated as a result of this investment in our city’s commitment to economic diversity.

2015 HOUSING GO BOND SPENDING

SPENDING CATEGORY	USE OF FUNDS	TIMELINE
PUBLIC HOUSING: Accelerate Sunnydale Accelerate Potrero	Accelerate HOPE SF housing and infrastructure long-term development programs Up to 80% AMI; Likely 30% AMI or less	2017-2018 2018-2019
Subtotal	\$80 million	
MISSION AFFORDABLE HOUSING:	Site acquisition, unit rehab, and predevelopment	Site Acquisitions & predev: 2016-2020
Site acquisition, unit rehab, and predev	Up to 120% AMI; likely 50% AMI or 80% AMI targets	Building Acquisitions & Rehabs: 2016-2018
Subtotal	\$50 million	
LOW-INCOME HOUSING:	New construction and acquisition/preservation of existing rental housing; focus is low-income families, veterans, seniors	
New Construction	Up to 50% AMI	2016-2020
Preservation of Existing Rental Housing	Target 80% AMI, Up to 120% AMI	2016-2020
Subtotal	\$100 million	
MIDDLE-INCOME HOUSING:	Educators, Middle-Class Families	
DALP Loan Expansion	Up to 175% AMI	2016-2020
Teacher Next Door	Up to 200% AMI	2016-2020
Middle-Income Rental Program	Between 80-150% AMI	2016-2020
Expiring Regulations Preservation	Up to 120% AMI	2016-2018
Subtotal	\$80 million	
GRAND TOTAL	\$310 million	

The 2015 Affordable Housing Bond was reviewed by the Capital Planning Committee on May 11, 2015 and introduced at the Board of Supervisors on May 12th, 2015. Following its introduction at the Board of Supervisors, the 2015 Housing Bond will adhere to the following schedule:

- Review by the Board of Supervisors Budget & Finance Subcommittee: July, 2015;
- Consideration by San Francisco Voters: November, 2015;
- Project Implementation: January, 2016.

Upon passage by the voters, 2015 Housing Bond proceeds will immediately be put to use within the allocated project categories.

ACCOUNTABILITY AND THE TEN YEAR CAPITAL PLAN

The 2015 Affordable Housing Bond illustrates the City’s recognition that safe, affordable, and accessible housing is an asset on which the vitality of our city relies. The 2015 Affordable Housing Bond acknowledges that the current housing crisis demands increased

financial investment and commitment, within the fiscally responsible framework of our established capital planning process.

The 2015 Affordable Housing Bond will not raise property tax rates beyond their fiscal year 2006 levels.

The Capital Plan prioritizes critical capital projects that impact public safety and well-being, and places a strong emphasis on accountability and transparency. The Capital Plan demonstrates the highest levels of fiscal restraint and responsibility. Where general funds are not adequate to pay the costs of major capital projects, the Capital Plan recommends using one of two sources of long-term debt financing: general obligation bonds backed by property taxes upon approval of the voters, and general fund debt programs backed by the City's general fund upon approval by the Board of Supervisors and the Mayor. Both sources are appropriate means of funding capital improvements, as they spread the cost among a wide swath of San Franciscans who will benefit from the investments over time. The Capital Plan has adopted strict financial constraints on the use of long-term debt financing to avoid placing an increased burden on future generations. Voter-approved bonds proposed by the Capital Plan are only proposed as the City retires existing debt from prior bonds. This allows the City to initiate capital projects cyclically, without increasing property tax rates.

Spending proceeds of the 2015 Affordable Housing Bond will be overseen by the Citizens' General Obligation Bond Oversight Committee (GOBOC). This independent, nine member committee is appointed by the Mayor, the Board of Supervisors, the Controller, and the Civil Grand Jury. One-tenth of one percent (0.1%) of the bond funds would pay for the committee's audit and oversight functions. Per the Administrative Code (Sections 5.30 to 5.36), the GOBOC Committee reviews, audits, and reports on the expenditure of bond proceeds to assure the expenditures are in accordance with the will of the voters. This committee will submit audits and reports to the Board of Supervisors and the Mayor's Office. In addition, the Administrative Code Sections 2.70 to 2.74 call for a bond accountability report to be presented 60 days in advance of the issuance of any portion of the bond authority. This report must be submitted to the Clerk of the Board of Supervisors, the City Controller, Treasurer, the Director of Public Finance, and the Board of Supervisors Budget Analyst. It must describe the current status of each proposed project and whether it conforms to the express will of the voters.

PROJECT PRIORITIZATION

Upon passage by the voters, 2015 Affordable Housing General Obligation Bond proceeds will immediately be put to use within the allocated project categories. In deciding which programs to implement first, three key factors will be considered:

- **Program-specific Prioritization Criteria.** As described in this report, each program area includes prioritization criteria relevant to the specific program. These criteria weigh factors that include project impact and location, urgency of need, and populations that benefit from the project.

- **Equity Analysis.** Each program considers geographic and social equity goals as a factor in prioritizing projects.
- **Funding Source Eligibility.** If approved by voters, the revenue realized through the 2015 Affordable Housing GO Bond will be considered in coordination with other existing federal, state, local, and private revenue sources, to ensure that the widest range of projects and needs are delivered. The City will continually evaluate the most effective way to deliver program projects, taking into consideration funding restrictions as well as leveraged outside sources.

The City will also evaluate programs as they are designed, implemented, and delivered, to ensure effectiveness. This information will be considered annually and program modifications will be made as appropriate, based on this additional data.