Mayor's Office of Housing and Community Development
City and County of San Francisco

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Members of the Citizens General Obligation Bond Oversight Committee:

At your last meeting on July 28, 2016, several questions were asked by Committee members, either in person or via email. Below are our department's responses to these questions. We will be present at the September 22, 2016 CGOBOC meeting to answer any further questions you may have. We will have a full Bond Report with metrics available for presentation and review at your January 2017 meeting.

From Larry Bush, via email:

Q: I believe that we should have greater context for how the bond expenditures will improve access to affordable housing. For example, the bond funds are part of a commitment that extends past the specific bond. It includes private sector commitments in Mission Bay, additional housing set-asides, and replacement housing at the SFHA. The presentation is unclear on how these moving parts create a better outcome, and I request the MOH to provide that larger context so that the bond can be evaluated in a manner that best conveys to the public what and how it will deliver.

A: From FY 16-17 to FY 18-19, MOHCD is expecting to invest approximately $856M in multi-family housing, of which approximately $280M is expected to be funded by bond revenues. The summary table attached shows how the bond revenues combine with non-bond funds to complete the entire portfolio of projects.

Q: I also have questions regarding the extent to which the bond funds are being used in place of funds that the city was obligated to spend or housing the city was obligated to maintain, but did not. This is particularly true for the Housing Authority developments that were ranked as Troubled largely due to housing quality standards that failed to meet basic requirements. In a 2013/2014 Civil Grand Jury analysis of housing, the issue was raised regarding whether expenditures for these purposes would be repaid to the city. The document provided to CGOBOC does not provide a repayment process and timeline. I am requesting that this information be provided.

A: Between FY 16-17 and FY 18-19, MOHCD expects to invest a total of $272M in rehabilitating and rebuilding public housing, of which approximately $77M of project funds will come from bond revenues. These bond funds were explicitly called out as being intended for public housing in the Bond Report from mid-2015. Specifically, these investments allow the HOPE SF program to be completed more quickly, ensuring that we minimize the amount of time residents live in substandard conditions. MOHCD sees this investment as vital to ensuring that some of the most vulnerable residents in San Francisco live in safe conditions which meet housing quality standards. Regarding repayment, as is typical for public lending on affordable housing projects, the bond funds will be issued as "residual receipts" loans, which require borrowers to repay the loans in annual installments to the extent there is surplus cash flow after payment of operating expenses, reserves, and amortizing debt payments. Interest rates are set between 0% and 3%, depending on the financial needs of the projects. Because the public housing developments in receipt of bond financing will include Section 8 operating subsidies, we do expect annual residual receipts repayments to be made to MOHCD. Any bond funds repaid in this manner will be re-issued as new affordable housing loans under terms consistent with the original bond legislation.

The 2014 Civil Grand Jury report on the work of MOHCD recommended *"that as Housing Trust Fund (HTF) funds are allocated to Housing Authority properties, MOHCD and the Mayor document a funding analysis for the allocation and the impact these disbursements may have on MOHCD Affordable Housing goals and programs to the Board of Supervisors and the public in the year of encumbrance. Reports should include annual updates on repayment."* Housing Trust Fund revenues may be used for rehabilitation, including rehabilitation of public housing, and MOHCD reports on the status of the Housing Trust Fund and any loan repayments to the Fund in our annual report to the Board and the public each year.

Q: I also request specific information on the process for awarding funds to build, complete or repair housing to ensure those funds are awarded with complete and total commitment to money well spent and done so in fairness to all competitors. The Controller won the ability in very recent times to see that contracts are awarded on more than just the low bid, but also based on performance. I am requesting copies of bid sheets that outlines fully and completely how bids will be evaluated based on performance as well as cost. I also would like confirmation that failure to meet the performance standards or the financial commitments will include seeking a debarment for those who take advantage of this program in ways that would result in a similar debarment or Limited Denial of Participation by federal, state or other funders, with a chart outlining those standards.

A: Attached you will find the Prop A NOFA which MOHCD issued for the low-income funds (including those targeted in the Mission neighborhood), as well as the Q&A and scoring guidelines. As you can see from the scoring guidelines, performance and experience are large components of the scoring for the NOFA.

MOHCD does not formally debar organizations from participating in NOFAs. The awarding of our NOFAs is based on a points system which gives maximum points to respondents with the most applicable successful experience and the current capacity to succeed again. If an

organization failed to achieve performance standards or fulfill financial commitments, the result would be a lower score on future NOFAs and RFPs.

There is no mechanism in standard affordable housing financing transactions for MOHCD to compel federal, state or other funders to debar or limit participation of developers with whom it works but who have failed to achieve MOHCD standards. However, one relevant enforcement mechanism that intersects with MOHCD financing is the Tax Credit Allocation Committee's (TCAC's) ability to impose "negative points" on applicants to its program that fail to comply with its requirements and regulations. Since tax credit financing is the main funding vehicle for all affordable housing built in San Francisco, the specter of negative points provides an extremely strong incentive for affordable housing developers to conform to TCAC's requirements, which generally overlap with MOHCD construction and financing requirements.

From Robert Carlson at the July 28, 2016 meeting

Q: Can you please provide definitions of several key words used in your materials, including: predevelopment, vertical gap, infrastructure predevelopment?

A: ***Master Planning:*** **Development of an overall strategy for the complete transformation of a public housing site. Master Planning work sets forth a comprehensive vision, schedule, communications plan, financing strategy, services program, and, most importantly, stakeholder participation process that highlights resident needs.**

Predevelopment**: Costs prior to actual construction, including architectural, engineering, environmental, and permitting costs. May be related directly to housing development, or may be infrastructure predevelopment which supports**

Vertical Gap and/or Vertical Development**: Costs starting with actual construction through and including occupancy and conversion to permanent financing**

Infrastructure: **Costs which are secondarily related to housing development, including large-scale site grading, streets, sidewalks, utility work, etc. Predominantly needed in the HOPE SF context where we are creating entire new neighborhoods.**

Acquisition: **Costs associated with acquisition of real property**

Additionally, we've attached a more detailed description of budget items associated with the first $77M issuance.

Q: Can you provide data on Downpayment Assistance Loan (DALP) utilization?

A: The below table shows the number of market-rate DALP loans issued by year. As you can see, utilization varies over time. Utilization is only partly a function of funds available. Real estate market conditions, including home prices, interest rates, and other factors play a large role in DALP loan utilization. With the bond funds, we have for the first time a fund source for DALP loans for households above 120% of the Area Median Income. We will be gathering data about the interest and utilization by market and will be able to report back to the Committee as we progress through the program.

Year	Number of New Market-Rate DALP Loans
1998	27
1999	44
2000	60
2001	46
2002	23
2006	2
2007	19
2008	36
2009	72
2010	18
2011	25
2012	18
2013	23
2014	20
2015	15
2016 (through August 31)	10
Grand Total	***458***

Q: What are the San Francisco residency requirements for placement in housing for homeless households?

A: The Department of Homelessness and Supportive Housing has a variety of different housing options for homeless families. Different programs have different requirements for residency. Homeless units currently being built with funding though MOHCD are predominantly subsidized through the Local Operating Support Program (LOSP). LOSP is a General Fund operating subsidy which covers the gap between what formerly homeless residents are able to pay in rent and the cost of operating an affordable housing development.

In order for an individual or household to be eligible for placement in a LOSP unit, the applicant must be a current San Francisco resident. Applicant must be able to document and verify a minimum of eight months of San Francisco residency within the past three years. Documentation may include, but is not limited to:

- **Evidence of receipt of San Francisco public benefits, such as TANF, CalFresh, MediCal.**
- **Verification of San Francisco shelter or other San Francisco residential program stays on agency letterhead.**

Other subsidy programs have other residency requirements, but most programs take into consideration length of homelessness when making placements into housing. The new Departments of Homelessness and Supportive Housing is working on a Coordinated Entry System, which will likely include a formal and consistent policy around residency requirements.

Housing GO Bond Spending Proposal - First Issuance

	Amount	Est. First Encumbrance	Est. Last Disbursement	Notes
Public Housing				
Potrero Parcel X Predev	2,251,586	July 2016	Nov 2016	Predevelopment costs associated with architecture and engineering for Block X, 72 units of affordable housing that will serve 53 households from the first demolition phase of Potrero HOPE SF.
Potrero Parcel X Vertical Gap	14,148,414	Nov 2016	July 2017	Construction gap costs including unit construction costs, required infrastructure and offsite work, loan fees and interest, title and recording, legal costs, insurance, permits, furnishings, marketing, reserves, and developer fee.
Potrero Infrastructure Predev	1,200,000	Oct 2016	Oct 2017	Predevelopment costs associated with the first horizontal infrastructure phase, largely engineering, surveying and permitting costs. Infrastructure includes new streets, utilities, and grading of pads for vertical development.
Potrero Block B Predev	2,300,000	Mar 2017	Mar 2018	Predevelopment costs associated with architecture and engineering for Block B, approximately 94 units of affordable housing that will serve 75% households from the Potrero HOPE SF site and 25% new affordable units.
Sunnydale Master Planning	2,800,000	July 2016	Jun 2017	Final planning necessary to complete the entitlement process for Sunnydale, including Develop Agreement, Master Developer Agreement, Special Use District legislation, Relocation Planning, Infrastructure Master Plan.
Sunnydale 6A & 6B Predev	5,000,000	Dec 2016	Jul 2018	Initial legal cost for acquisition, architecture and engineering fees, survey, geotechnical reports, Phase I environmental reports, appraisal, property taxes, application fees for other funding sources, and developer fee.
Sunnydale Parcel Q Predev	2,000,000	Sept 2016	Nov 2017	Initial legal cost for acquisition, architecture and engineering fees, survey, geotechnical reports, Phase I environmental reports, appraisal, property taxes, application fees for other funding sources, and developer fee.
Sunnydale Parcel Q Vertical	10,900,000	Nov 2017	Sep 2019	Construction gap costs including unit construction costs, additional engineering fees, construction loan fees and interest, title and recording, additional legal costs, insurance, permits and entitlements, furnishings, marketing, reserves, and developer fee.
Subtotal	40,600,000			
Low-Income Housing				
Project #1 - Predevelopment	3,000,000	Dec 2016	Dec 2017	In April 2016, MOHCD issued a Notice of Funding Availability (NOFA), with submissions due July 11, 2016. Respondents were required to propose a specific new affordable housing development on a specific parcel. These proposals are currenlty under review, and included proposals in the Mission, Forest Hills, Western Addition, Tenderloin, and the Excelsior. Proposals for type of housing included homeless, senior, and family housing. Successful respondents will be award predevelopment loans to move the design process forward, with additional gap financing coming from future issuances of the bond.
Project #2 - Predevelopment	3,000,000	Dec 2016	Dec 2017	
Project #3 - Predevelopment	3,000,000	Dec 2016	Dec 2017	
Small Sites Program	15,000,000	Nov 2016	Nov 2017	MOHCD's existing Small Sites Program provides funding for the acquisition and rehabilitation of existing multi-family rental buildings of 5-25 units. This program helps stabilize buildings that are occupied by low to moderate income tenants throughout San Francisco that are particularly susceptible to market pressure resulting in property sales, increased evictions and rising tenant rents. This funding will augment the existing funding sources and our rolling NOFA responses.
Subtotal	24,000,000			
Low-Income Housing: Mission Neighborhood				
Predevelopment Costs	6,000,000	Dec 2016	Dec 2017	See above. Subset of April 2016 NOFA, with funds set aside specifically for projects in the Mission.
Subtotal	6,000,000			
Middle-Income Housing				
DALP Loan Expansion	2,900,000	Oct 2016	Oct 2017	The Downpayment Assistance Loan Program assists income-qualified households in purchasing their first home in San Francisco through the a "silent second" downpayment loan, which is recoverable with a share of appreciation upon sale. These funds will expanded the existing DALP program by allowing loans of up to $375K per loan and increase the household Area Median Income (AMI) served up to 175%.
Teacher Next Door	1,000,000	Oct 2016	Jun 2019	The Teacher Next Door Program assists educators employed with the San Francisco Unified School District with the purchase of their first home in San Francisco. This program supplements and may be combined with other downpayment assistance programs.
Subtotal	3,900,000			

Total Project Funds	**74,500,000**
Controller's Audit Fund	149,000
Costs of Issuance	539,725
Underwriter's Discount	760,250
Citizens' GO Bond Oversight	76,025
Reserve Pending Bond Sale	975,000
TOTAL USES	**77,000,000**

How 2015 General Obligation Bond for Affordable Housing Fits into Overall Funding Strategy

	FY16-17		FY17-18		FY18-19	
	Bond	**Non-Bond**	**Bond**	**Non-Bond**	**Bond**	**Non-Bond**
Public Housing						
HOPE SF	40,600,000	46,750,000	36,820,000	22,400,000	-	74,350,000
RAD	-	21,472,291	-	30,000,000	-	-
Low-Income Housing						
New development: Mission	6,000,000	99,500,000	20,000,000	17,200,000	22,385,000	28,000,000
New development: Other Neighborhoods	9,000,000	92,716,266		32,500,000	63,540,000	-
Acquisition/Rehab: Small Sites	15,000,000	15,123,165	9,235,000	3,592,506		5,000,000
Acquisition/Rehab: Other	-	52,844,424		5,842,000		28,000,000
Middle-Income Housing						
Downpayment Assistance	2,900,000	3,500,000	2,900,000	4,500,000	8,700,000	4,500,000
Teacher Next Door	1,000,000	-	1,000,000	-	3,000,000	-
Other Middle-Income Programs	-	-	33,000,000	-	24,920,000	-
TOTAL	**74,500,000**	**331,906,146**	**102,955,000**	**116,034,506**	**122,545,000**	**139,850,000**

Note: FY18-19 Bond values for downpayment assistance and Teacher Next Door may be spent over three years.

Units estimated to be created and/or substantially rehabilitated from bond funds:	1,069
First-time homeowners estimated to be assisted from bond funds:	189
Units estimated to be created and/or substantially rehabilitated from other fund sources, 2015-2020:	12,870