

RECEIVED
MAYOR'S OFFICE

HOUSING STABILITY FUND OVERSIGHT BOARD 2023 APR 10 AM 10:33
City and County of San Francisco

April 10, 2023

Mayor London Breed
City Hall
1 Dr Carlton B. Goodlett Place
Room 200
San Francisco, CA 94102

President Aaron Peskin
Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102

RECEIVED
MAYOR'S OFFICE
2023 APR 10 AM 10:33

Mayor Breed, President Peskin, and Members of the Board of Supervisors:

We are pleased to present, as mandated by the Administrative Code, the enclosed budget recommendations of the Housing Stability Fund Oversight Board to grow and improve our City's supply of affordable housing— housing that is affordable to low and middle income working families and seniors, and meets the code's definition of social housing.¹

Our recommendations for a total FY2023-24 allocation of \$85 million are based on conservative estimates of this fiscal year's Proposition I revenue per the most recent Controller's reports – minus a 10% reduction in accordance with the Mayor's budget instructions. By category we recommend the following investments for FY 2023-24:

\$30M	Land acquisition for new construction
\$30M	Construction Cost for New Social Housing
\$18M	Building upgrades and repairs

¹ S.F. Administrative Code, Section 10.100 et seq.

\$2M	Support for housing innovations
<u>\$5M</u>	Funding affordability for seniors and people with disabilities
\$85M	TOTAL FOR FY2023-24 ²

Our more specific recommendations within each of these categories are informed by the public comments we have received and our mandate to identify innovative solutions to address unmet housing needs and gaps in existing programs – with special attention to advancing racial, economic, and geographic equity. Our recommendations are also aligned with the objectives of the City’s newly adopted Housing Element and informed by emerging initiatives at the state level to support the expansion of models of social housing.

San Francisco approved its 2023-2030 Housing Element earlier this year, with the goal of building 82,069 housing units over the next eight years, an unprecedented amount of construction. Of those 82,000 units, 20,867 must be very low-income units (affordable for households below 50% of the Area Median Income), 12,014 must be low-income units (between 50-80% AMI), and 13,717 must be moderate-income workforce units (80-120% AMI), covering the full range of social housing units identified in the Housing Stability Fund. In order to meet these Housing Element targets, the plan states: “The City should utilize the two new sources of funding, gross receipts tax, and the Real Estate Transfer tax, to partially meet our funding gap, and consider new funding sources such as a new affordable housing bond, and other sources to meet the gap.”

Unless the City, even in lean budget years, consistently commits new Proposition I revenue towards building affordable housing it will fail to meet its stated affordable housing goals. Given this imperative, our Board has proposed allocating 71% of this year’s Proposition I’s revenue towards acquiring new sites and building new affordable social housing developments. We further recommend that the City prioritize funding for housing that serves our public sector essential workers – too many who are

² As discussed in the recommendations, there is about \$40 million in the Housing Stability Fund from previous allocations that remains to support the acquisition of at risk rent controlled housing. We expect that the \$40M funding to be used within FY2023-24 and will need to be replenished in FY2024-25.

now priced out of market rate developments and must commute long hours to keep our buses, hospitals and schools operating.

In addition to building new housing, San Francisco also must not stop maintaining and upgrading its aging and at-risk housing. Thus we have recommended over 21% of Proposition I's revenue be committed to upgrade public housing, existing housing co-operatives, and SROs. As noted in the Draft San Francisco Reparations Plan issued this past December, revitalizing public and cooperatively owned housing is of high importance for the Black community remaining in the City. SROs also provide an essential safety net against homelessness and provide housing for a high concentration of BIPOC San Francisco residents. Reinvesting in these important housing resources should continue to be a high priority.

We recommend the remaining 8% of available Proposition I revenue this year be committed to investments in developing promising new affordable housing initiatives, as well as funding to assure that more seniors and people with disabilities will be able to afford housing in new developments.

The investments of Proposition I revenue recommended by our Board will make more housing affordable and accessible to more San Francisco families, seniors and essential workers.

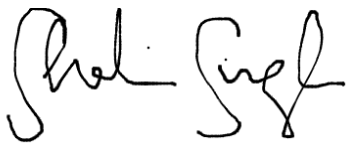
Making these investments at this time will also keep San Francisco in the forefront of emerging state and local initiatives to develop new models of social housing production and preservation. Hawaii, Seattle, New York, Maryland, Rhode Island, Los Angeles, Washington, D.C. and others have created or are considering creating social housing programs. Several proposals concerning social housing funding, acquisition, and production have been introduced in the California State Legislature for the 2023-24 legislative session.³

By engaging now in the development of social housing policies and programs, San Francisco can help inform and shape state policies to assure their maximum applicability and alignment to meet the needs of our local communities.

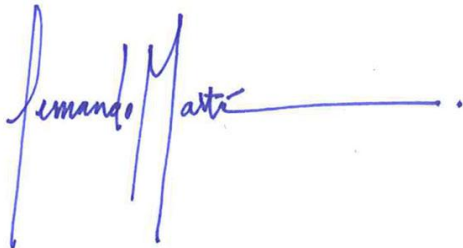
³ Social housing related bills in Sacramento include AB 309 (Lee, Wiener, Haney), SB 555 (Wahab, Haney), SB 584 (Limón), AB 919 (Kalra), and SB 225 (Caballero, Haney).

For all these reasons we urge the Mayor's Office and the Board of Supervisors to incorporate and adopt the recommendations of our board in the FY2023-24 and FY2024-25 budgets. Our board would welcome your respective staffs' questions and feedback.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Shanti Singh". The letters are cursive and fluid.

Shanti Singh, Chair

A handwritten signature in blue ink, appearing to read "Fernando Marti". The signature is cursive and includes a long horizontal line extending to the right.

Fernando Marti, Vice Chair

**THE SAN FRANCISCO HOUSING STABILITY FUND OVERSIGHT BOARD
2023 BUDGET RECOMMENDATIONS
APPROVED UNANIMOUSLY APRIL 5, 2023**

BACKGROUND

On November 3, 2020, the voters of the City and County of San Francisco overwhelmingly voted to approve Proposition I, substantially increasing the transfer tax on large real estate transactions – a tax that the Board of Supervisors resolved to commit to funding social housing and COVID rent assistance.

In 2020 the Board of Supervisors also unanimously approved an ordinance creating the Housing Stability Fund for the “acquisition, creation, and operation of affordable Social Housing.” That ordinance created this oversight board which was charged with presenting to the Board of Supervisors recommendations for uses of Proposition I revenue allocated to the fund.¹

According to the most recent published estimates by the Controller, in FY2022-23 Proposition I will generate \$115 million in new revenue after baseline deductions.² However in its March 31 budget update the Controller estimated that total transfer tax revenue for the present fiscal year will be 17% less than its previous projections.³ While we have not received updated projections for Proposition I’s portion of total transfer tax revenue, until we receive additional information from the Controller we are including in our present recommendations a 17% reduction in projected Proposition I revenue. In addition, we are reducing our recommended budget by 10% to reflect the Mayor’s FY2023-24 instructions to City Departments. As a result we are presenting a recommendation for a Housing Stability Fund total budget of \$85 million for FY2023-24 funded by the revenue generated by Proposition I this present budget year.

2023-24 FUNDING RECOMMENDATIONS

1. SITE ACQUISITION FOR AFFORDABLE SOCIAL HOUSING (\$30 million)

Securing land is an essential prerequisite for expanding San Francisco’s supply of affordable housing – particularly since San Francisco is the most densely and extensively developed county

¹ <https://sf.gov/departments/housing-stability-fund-oversight-board>

² Office of the Controller, [Six Month Budget Status Report](#), (February 15, 2023), p. 14.

³ Office of the Controller, [Budget Outlook Update](#) (March 31, 2023) Appendix C.

in California. Last year’s approval of the \$40 million land acquisition fund, was a big first step toward securing more scarce land for affordable housing. However, more funds and sites are needed even in this tight fiscal year.

The present slowdown in the real estate market creates a rare opportunity to acquire additional sites and reduce future housing costs. According to the Office of the Controller, the price of unentitled land is at a ten-year low, at about \$60,000/unit – almost a third less than its peak five years ago.⁴ Investing in land now will lower costs in the long run, and can secure optimal locations for working families and seniors. Acquiring sites from the private market is one necessary part of a comprehensive affordable housing strategy.

The next round of acquisition funding should also invest in developing existing publicly owned sites. Dedicating Proposition I land acquisition funding to publicly owned sites for housing can be particularly beneficial in lean budget years. Because public agencies such as SFUSD, MUNI, and PUC need to be compensated for conversion of land under their control, dedicating Proposition I funding to acquiring public lands not only develops more affordable housing, but can also provide needed revenue for public agencies. City agencies can also benefit if a percentage of housing units built on public lands are set aside for essential public sector workers. With proper planning, acquiring public lands for affordable housing can deliver a triple benefit to the City.

Priorities for acquisition funding:

- MOHCD acquisition from other City Department of Surplus or underutilized public lands for developing affordable social housing including units targeted for public sector and other essential workers
- NOFA for acquisition of any of the following: (1) Privately-owned sites with optimal access to public transit in either Well Resourced Neighborhoods or Housing Element-designated Priority Equity Geographies for the development of affordable social housing and Limited-equity housing cooperatives.

2. CAPITAL FUNDING FOR THE DEVELOPMENT OF NEW SOCIAL HOUSING (\$30 million)

⁴ The Controller’s office reports that land prices in 2017-19 cost an average of \$175,000 to build a unit of housing. (Office of the Controller, Report to Inclusionary Housing Technical Advisory Committee, Jan 6, 2023).

Without a commitment to substantially increase annual funding for affordable housing, San Francisco will fail to meet its legally mandated commitments contained in its Housing Element. The real life impact of such a failure will be increasing displacement of low and middle income workers, seniors, and communities of color from the City. Affordable housing projects already in the development pipeline will be delayed and plans for innovative new forms of social housing will be shelved. The need for additional funding is heightened in the next two fiscal years given the decline in both on-site inclusionary units and inclusionary housing fees generated by market rate housing development – a problem that could be exacerbated if proposals to reduce those fees are adopted. Moreover, the Inclusionary Program, which is now at a standstill because it depends on market-rate investment, is the only program that MOHCD has to produce new units affordable to the City’s workforce.

Last year’s budget process also resulted in the allocation of \$12 million to build new affordable housing for our city’s educators and public school staff. A Notice of Funding Availability (NOFA) for this housing was released in March, and was an important downpayment toward addressing the broader need for housing our city’s essential workers.

The COVID health crisis brought long-overdue recognition of the role that ‘essential workers’ play in our collective well being and survival. If the recognition of the importance of essential workers to our city is not to be short lived then this city must also acknowledge that our ongoing affordable housing crisis is continuing to impose significant hardships and burdens on low and middle income workers including our city’s own public employees – forcing many to leave the city. For this reason, this year we propose broadening last year’s emphasis on educator housing development to support the development of new affordable construction for all of the city’s public sector essential workers including educators and public school site staff – housing that is affordable to households earning up to

Priorities for affordable housing development and upgrades:

- Pre-development and development costs for low and moderate income housing targeted for the San Francisco public sector essential workers (including but limited to educators, nurses, paramedics, janitors, transit workers)

- Non-LIHTC housing development/construction costs that meet affordable social housing requirements.

3. ACQUISITION AND REHABILITATION OF AT-RISK RENT CONTROLLED HOUSING (Existing funding for FY 2023-24 (carried over from FY2021-22) and \$ 32 million for FY 2024-23)

The Housing Preservation Program plays a crucial role in the City’s efforts to preserve the affordability of rent-controlled housing that is at risk of conversion into high cost housing or removal from the housing stock as a result of hazardous conditions, neglect, and deferred maintenance. Last year, the Housing Stability Fund was the city’s *primary* source of funding for the preservation program. In 2022, MOHCD committed \$34 million from the fund to upgrade and preserve the affordability of 118 units of housing. Given the decline in the other funding sources, the preservation program will likely exhaust its funding reserves in FY2023-24.⁵ Because the preservation process takes a year or more of planning and commitment of resources, in order for the City’s preservation program to continue to protect at-risk tenants from displacement, it is essential that the City budget commit additional funding now to replenish the program’s funding in FY 2024-25.

4. CAPITAL FUNDING FOR UPGRADES OF PUBLIC HOUSING, CO-OPS, AND OTHER EXISTING AFFORDABLE HOUSING (\$18 million)

San Francisco must also continue to reinvest in repairs and upgrades to its existing affordable housing stock. To address these needs, last year the HSFOB-initiated budget process led to a commitment of \$30 million in new funding for repairs and capital upgrades to affordable housing, including public and co-op housing, plus \$10 million in elevator renovations to affordable SROs.⁶ Without an ongoing commitment of funding to improving conditions in our City’s public and affordable housing some of our city’s most vulnerable families and seniors will continue to experience deteriorating conditions and substandard conditions.

⁵ We are informed that approximately \$40 million in previously appropriated Housing Stability Fund resources are still in reserve.

⁶ The FY2023-24 budget included \$20 million in COP funding for public and co-op housing, \$10 million in COP funding for SRO elevator installation and upgrades, and a \$10 million General Fund appropriation for needed capital upgrades for nonprofit affordable housing.

Priorities for affordable housing development and upgrades:

- Accessibility, life-safety upgrades, and emergency repairs to non-RAD public housing, existing Limited Equity Housing Cooperatives, HUD-funded Housing Cooperatives, and MOHCD owned Cooperatives.
- Capital upgrades for nonprofit operated affordable housing.
- Elevator installation or upgrades in non-profit owned SROs with supportive housing units and other non-profit owned SROs serving extremely low income tenants.

5. HOUSING INNOVATION CAPACITY (\$2 million in FY2023-24, including carry over from FY 2022-23)

For over forty years, San Francisco's affordable housing programs have demonstrated a strong record of innovations and accomplishments relative to most other counties in the state if not the country. If San Francisco is to continue to lead the field and address the growing unmet needs of all its residents, it must also invest in new programs and initiatives.

One critical and urgent area for innovation and capacity building is the need to stem the loss of essential workers from the City who are unable to access affordable housing in the City. Based upon public testimony and the previous research by Jobs with Justice, we recommend funding to survey the barriers to affordable housing experienced by the City's public-sector essential workers, and developing recommendations for addressing those barriers.

This board's recommendations last year included four initiatives for innovation and capacity building that were adopted and included in the present year's budget. Three initiatives were funded through MOHCD and one through LAFCO. We have been advised by MOHCD that NOFA would be forthcoming. If for some reason NOFAs are delayed we recommend they be carried over into FY2023-24. LAFCO has indicated it will carry over its initiative to FY2023-24.

Specific recommendations:

- \$300,000 grant for community based organization with experience with workforce issues to conduct research to identify and propose solutions to the

policy and programmatic barriers to developing and financing housing serving low and moderate income public sector workers.

- Carry over \$1.7M in FY2022-23 innovation and capacity building initiatives to FY2023-24.

6. OPERATING SUBSIDIES FOR SENIORS AND PEOPLE WITH DISABILITIES (\$ 5 million)

The 2022-23 HSFOB recommendations included support for operating subsidies to make senior and accessible units affordable for extremely low-income seniors and people with disabilities. This year we recommend the City's existing Senior Operating Subsidy program continue to be incrementally expanded in order to assure that rents in senior housing now being developed will be affordable for ELI seniors. In addition, in order to address the needs of non-senior ELI families who need accessible housing, we urge the City to establish a project based operating subsidy for accessible housing units.

Specific funding recommendations:

- \$4.5M for Senior Operating Subsidies
- \$500,000 for a pilot project based Accessible Housing Operating Subsidy

ACKNOWLEDGEMENTS

The Housing Stability Fund Oversight Board thanks the many San Franciscans who have submitted written comments or spoken out at our public hearings in the past months to encourage and challenge our City to act more creatively and with greater urgency to address the housing crisis that impacts all our communities. Some of the organizations that have provided specific recommendations for this upcoming budget year include:

- Community Tenants Association
- Council of Community Housing Organizations
- Jobs with Justice San Francisco
- San Francisco Anti Displacement Coalition
- San Francisco Building Trades Council
- San Francisco Tenants Union
- SEIU Local 1021
- Senior and Disability Action