

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



Edwin M. Lee
Mayor

Olson Lee
Director

To: Ballot Simplification Committee
From: Olson Lee *Ol*
Director, Mayor's Office of Housing and Community Development
Date: July 14, 2016
Re: "Competitive Bidding for Affordable Housing Projects on City-Owned Property" Initiative Measure

Pursuant to the letter dated July 11, 2016 from John Arntz, Director of the Department of Elections, we are providing our analysis on the effect of the measure on current law and practices.

- 1) Section 2, Findings, paragraph 4: the legislation states: "... The affordable housing projects which use these funds [as referenced above, The Citywide Affordable Housing Fund, the Mayor's Housing Affordability Fund and the Mayor's Housing Program Fees Fund] are not currently subject to a competitive bidding process, which may lead to wasted City resources and may lead to the sue of City funds based on favored relationships instead of merit and cost.

This statement is factually inaccurate. The MOHCD-issued Requests for Proposals and Notices of Funding Availability are competitive. We create scoring and selection criteria for each project that evaluates 1) financial feasibility; 2) cost-effectiveness; 3) design; 4) community amenities; 5) quality of tenant services programs; 6) development team capacity; 5) and the ability of the developer to secure leveraged financing at its maximum value.

When submissions are received, they are thoroughly evaluated for threshold eligibility. Proposals not meeting threshold are rejected. A selection panel comprised of MOHCD staff, outside City agency staff, and, often a community representative with subject matter expertise, evaluates each remaining proposal. The panel also conducts team interviews before making its selection. Rankings for each team are public record, as are the proposals themselves.

The legislation incorrectly assumes that developers bid a complete project with all final costs. What the developers actually provide are cost estimates for their projects. Upon finalization of their entitlements, drawings are created and then competitively bid to ensure lowest possible construction costs. Furthermore, the procurement process for contractors and sub-contractors is already subject to the review by the City.

- 2) Section 2, Findings, paragraph 4: the legislation also states: "... the bidding process should be a competitive one which maximizes the best price for the City and maximizes the amount of affordable housing which can be obtained in any given project." While MOHCD prioritizes cost-effectiveness and seeks the maximum possible density for its projects within existing zoning and cost constraints, the stated goal of getting "the best price for the City" may be misleading. Construction of basic rectangular buildings comprised of concrete masonry units is a very cheap approach that could be considered "the best price". MOHCD strives to select in its competitive processes the best project, which includes an analysis of cost-effectiveness as well as architectural and building element longevity and quality, neighborhood context, and resident amenities that will encourage housing stability and deter crime and degraded habitability conditions. Examples of low-price but unsuccessful housing are the many older public housing sites scattered around the City that have been demolished or are scheduled to be demolished and replaced due to their inferior design and shoddy construction.
- 3) Section 3(c)-(d), Purpose: These provisions, "(c) To ensure that the City, expect (sic) in limited circumstances, chooses the best value proposal in order to maximize the City's return on its affordable housing resources" and "(d) To ensure that the City's affordable housing policies seek to maximize the efficiency and minimize the costs to taxpayers of affordable housing projects" do not adequately define "best value" and what it means to "maximize" the City's return.

Amendments to the Administrative Code. The comments below apply to each relevant change of the Admin Code, i.e., Sections 10.100-49; 10.100-110; and 10.100-117.

- 4) Section 4.1(e)(1), regarding publishing: This provision is already MOHCD practice.
- 5) Section 4.1(e)(2), regarding receipt of three bids or proposals for the affordable housing project. Most MOHCD solicitations generate more than three bids. However, on occasion, especially if the proposed project is exceptionally challenging, we may get only two bids. The effect of this provision may be to indefinitely stall a development opportunity and delay or forego much-needed affordable housing. For example the Rental Assistance Demonstration Program received only two bids because of the large number of projects, 29, the large number of units, 3,400, and the complexity and challenge of pioneering the rebuilding of distressed public housing under a new federal program. MOHCD could also see fewer than 3 bids for our special needs housing, including those serving the formerly chronically homeless residents.
- 6) Section 4.1(e)(3), regarding MOHCD's retention of discretion regarding the definition of "best value proposal". The suggested criteria listed here are already included in MOHCD's practice.

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