

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



London N. Breed
Mayor

Eric D. Shaw
Director

April 27, 2023

Dear Mayor London Breed,

The Mayor's Office of Housing and Community Development is pleased to deliver our Housing Delivery Performance Assessment and Improvement Plan (PAIP), pursuant to Page 3 of the Housing for All Executive Directive 23-01. The Plan describes MOHCD's process improvement efforts towards a more efficient and cost-effective production of affordable housing. The Plan also includes the requested evaluation of local government constraints that increase costs associated with affordable housing development.

This document provides a comprehensive summary of MOHCD's role in the production of affordable housing. In addition to a departmental performance assessment, the document provides a detailed description of the Affordable Housing Development Timeline as it currently stands, with possible improvements to local constraints and overall processes, as well as a summary of current economic conditions that continue to impact the City's housing delivery goals.

We thank you for your leadership in bringing the City together around our shared goal of supporting residents with affordable housing opportunities and essential services to build strong communities. We look forward to continuing our work towards the goals of the Housing for All Executive Directive.

Thank you,

A handwritten signature in cursive script, appearing to read "Eric Shaw".

Eric Shaw
Director

Housing Delivery Performance Assessment and Improvement Plan

Mayor's Office of Housing and Community Development

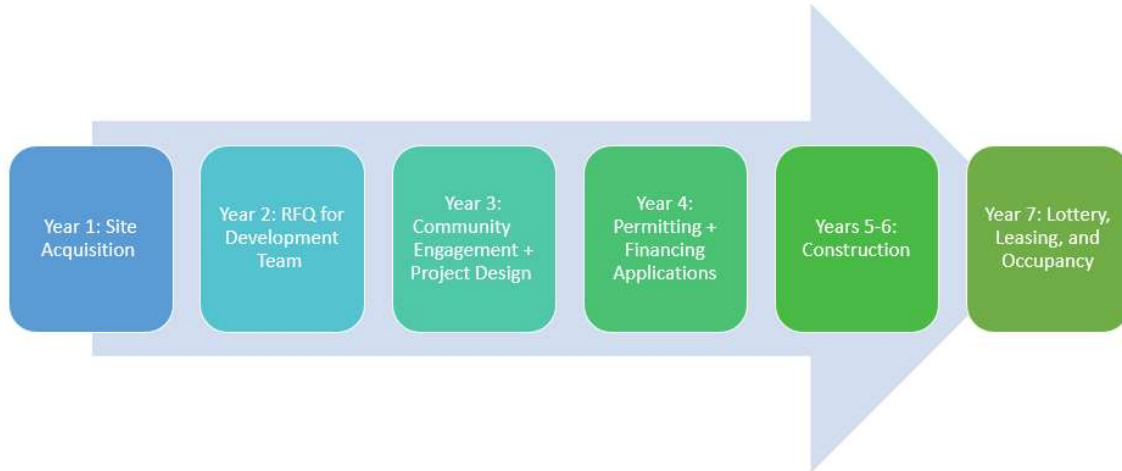
May 1, 2023

ROLE: The Mayor's Office of Housing and Community Development (MOHCD) supports residents with affordable housing opportunities and essential services to build strong communities. To support housing delivery, MOHCD oversees the deployment of funds for site acquisition for development, construction of new affordable units, the acquisition of existing units to ensure long-term affordability, and the rehabilitation of units to prevent unit loss. MOHCD works in partnerships with affordable housing developers to secure funding and navigate the local permitting process, and administers a variety of Federal, State, and local financing programs to develop new affordable housing and preserve existing units serving low and moderate-income households—in FY21-22, this included \$184 million in loan funding, projected to increase to over \$350 million in FY22-23. Additionally, MOHCD administers the City's Housing Trust Fund, which will invest \$1.5 billion in affordable housing production and housing programs over the next 30 years, as well as local General Fund money to support a wide range of services—in FY21-22, this included \$67.4 million in grant funding to community-based organizations.

As of March 31, 2023, MOHCD oversees almost 29,000 units of affordable rental and ownership housing across approximately 970 projects, including 100% affordable developments and inclusionary projects. MOHCD's pipeline consists of more than 9,500 new units of affordable housing across approximately 240 projects currently in pre-development or under construction, in addition to more than 1,200 units currently undergoing rehabilitation. The pipeline includes projects developed in partnership with nonprofit developers financed through city funding agreements, ground leases, disposition and participation agreements, and conduit bond financing, as well as Below Market Rate (BMR) housing units produced by private developers through the Inclusionary Affordable Housing Program.

The timeline for the production of affordable housing, from prefeasibility to lease-up, is approximately seven years. In each phase of development, delays or complications can increase costs and extend the timeline. These are illustrated in Appendix A, with possible improvements to local constraints listed under the cost reduction strategy.

EXAMPLE NEW AFFORDABLE HOUSING DEVELOPMENT TIMELINE



PERFORMANCE ASSESSMENT: MOHCD does not issue permits for housing delivery. The department does manage other processes that impact housing delivery, including the following:

- Procurements, including RFPs/RFQs/NOFAs for site acquisition and development
 - Timeframe: The process for internally drafting the procurement document is 3 months, the request is open for approximately 2 months, internal review of applications and (and interviews, when required) ranges from 1-3 months, depending on the number of applications received.
 - Potential delays: Delays can arise in securing budget approval, depending on the funding source; staffing capacity to manage a large volume of procurements.
- Underwrite and make recommendations for city loans for affordable housing preservation and production. New construction projects are typically underwritten three times: at predevelopment, preliminary gap financing commitment, and final gap financing commitment.
 - Timeframe: minimum 2 months to underwrite the loan, six weeks to get loan approved via internal and external vetting process (peer review, credit committee review, Loan Committee review/approval).
 - Potential delays: Delays can occur due to limited staffing capacity and due to volume of projects.
- Loan negotiation and execution
 - Timeframe: Execution of predevelopment loans takes 1-2 months from Loan Committee approval; Construction/Perm Loans typically close within 3 months of Loan Committee because approval is required, which takes 6-8 weeks.
 - Potential delays: Scheduling legislation at the Budget and Finance Committee can cause delays of up to several weeks; Signatories'/executives' scheduling constraints can also

cause delays. If predevelopment loan includes acquisition financing, additional time is required for BOS approval if the loan is over \$10M.

- Process draws
 - Timeframe: 2-3 weeks depending on whether additional documentation is needed.
 - Potential delays: Volume of draws, capacity of developer staff and quality of submission, capacity of MOHCD staff.
- Signing off on Notices to Proceed
 - Timeframe: 2-3 weeks, pending all required documentation from Sponsor and General Contractor.
 - Potential delays: Obtaining proof of all required insurance from development team.

HOUSING COORDINATOR: The Housing Coordinator role is led by the Director of Construction Services and supported by the Director of Joint Development. The lead attends the Executive Directive meetings, tracks permits related to MOHCD projects, and meets monthly with Planning to review projects. To improve the efficacy of the Housing Coordinator position at MOHCD, the Coordinator will focus on monthly reporting to senior leadership regarding impediments or roadblocks that need elevating. In addition, MOHCD will supplement the existing monthly meeting with at least biweekly meetings with SFPUC to ensure that MOHCD-SFPUC coordination is proactively addressing any power connectivity issues at housing developments.

PROCESS IMPROVEMENTS:

Completed Process Improvements:

Documenting Practices, Procedures, and Policies

1. In fall 2022, MOHCD published updated guidelines for the Small Sites Program, which provides local funding to nonprofit development partners for the acquisition, rehabilitation, and preservation of affordable housing. The guidelines clarify the application process, establish a funding rubric, and articulates the City's funding priorities.
2. In the past few years, MOHCD has updated a number of [policies and guidelines](#), including 9% Tax Credit Instructions (April 2022), Ground Lease Policy (March 2023), Underwriting Guidelines (November 2022), Commercial Space Underwriting Guidelines (March 2023), the Multifamily Securities Program Manual (November 2022), and the Local Operating Subsidy Program Policies and Procedures (2022). Updated and aligned policies streamline the process by providing clarity and consistency to developer applicants and to City staff.
3. In the past, a lack of clear communication and process between MOHCD projects and the Mayor's Office on Disability led to delays. The 9 [MOD bulletins](#) per ED 17-02 issued in fall 2020 have helped to standardize housing construction, strengthen consistency around the City's application of accessibility regulations and building codes, and improve field inspection outcomes.
4. MOHCD developed a competitive rubric for 9% geographic tax credits to provide more certainty to developers on financing paths for projects.
5. MOHCD has developed an internal "regulatory matrix" to support nonprofit developers to better understand regulatory requirements triggered by funding sources.
6. The department has migrated pipeline and portfolio data to Salesforce in preparation for more real-time reporting on project progress. Planned enhancements to Salesforce will allow MOHCD

staff to automate certain underwriting functions and more easily evaluate and compare project costs, timelines, and schedules.

Process Streamlining

7. MOHCD received Delegated authority for Bond applications in early 2023, which decreases the number of applications subject to the Board approval process. This reduces the timeline for each application by an estimated 6 weeks.
8. Priority Processing for affordable housing projects (ED 13-01/17-02) has successfully reduced permitting delays. MOHCD and applicants work together to implement the expedited process and DBI is particularly responsive to requests to prioritize 100% affordable permits, via both email and the monthly Priority Permit meetings.
9. Electronic Plan Review (EPR) has been successful in streamlining and expediting review, and MOHCD projects are correctly flagged as ED 13-01; Concurrent review made possible through EPR/Bluebeam sessions is considerably more efficient than routing paper plans.
10. The Public Works Infrastructure Task Force (ITF) was enhanced in recent years and is more effectively resolving complex issues with HOPE SF horizontal improvements.
11. DBI's Fee waiver pilot project in 2019/20 was greatly beneficial to MOHCD but was not extended due to the cost to permitting departments.
12. MOHCD projects are experiencing delays in public power design and construction. However, in the long run, the new Wholesale Distribution Tariff (WDT) agreement between PG&E and SFPUC should simplify permanent power design and eventually lower costs.
13. Local implementation of California's Senate Bill (SB) 35 has had a significant impact on project schedules. All affordable housing projects currently under development in San Francisco use SB 35, which provides entitlement in 3-6 months, compared to 12-24 months pre-SB 35.
14. MOHCD has fine-tuned the tracking of previous/current costs via construction comp chart that allows for benchmarking.
15. MOHCD worked collaboratively with the Department of Homelessness and Supportive Housing (HSH) to support the acquisition of six hotels using state HomeKey funds.
16. The Department improved monthly project reporting systems to ensure that projects with outstanding issues/ concerns continue to report post construction closing.
17. Moved Credit Committee meetings to weekly from biweekly to ensure that internal project approval does not slow down the project.
18. Hold monthly strategy meetings with HSH to coordinate joint workplan on housing for households experiencing homelessness. Hold monthly "pipeline" meetings with HSH to develop best practices and ensure close coordination on PSH projects and units.

Funding Process Improvements

19. MOHCD engaged a consultant to coordinate and strategize for all MOHCD Affordable Housing and Sustainable Communities (AHSC) grant applications to the State Dept of Housing and Community Development (HCD).
20. MOHCD developed and launched a new senior operating subsidy program that will increase project feasibility while deepening affordability.
21. In an effort to align SF Housing Authority goals with the MOHCD portfolio, the two agencies are coordinating on the development pipeline. In 2022, MOHCD partnered with the San Francisco Housing Authority (SFHA) to place 200+ Section 8s in MOHCD projects (new and portfolio).

Proposed Process Improvements:

1. In coordination with the monthly Priority Permit meeting, once the inspection division of MOD is embedded within DBI, MOHCD will work with the new team to identify opportunities to clearly identifying which 100% affordable projects need such review and which are exempt. Greater clarity from all permitting agencies around what is required for Site Permit and SIP approval will be included in this effort (i.e. a checklist to ensure consistency). This will reduce delays and staff time.
2. As recommended in the BLA's Performance Audit of Affordable Housing Financing, MOHCD will establish a written set of principles, workflows, guidelines, or best practices that formalize how funding decisions are made between different funding sources for affordable housing projects are prioritized for funding allocations. We anticipate completing this effort by spring 2024.
3. MOHCD is in the process of updating report delivery systems for quarterly reports required by the Board in order to provide more transparency on project delays and their causes. Anticipated completion June 2023.
4. MOHCD is seeking Delegated Authority from the Board to amend certain leases, which would decrease the number of amendments subject to the Board approval process. This would reduce approval time by 6-8 weeks. Legislation is in process at the Board.
5. MOHCD is negotiating with the State to produce a blanket apply-for resolution for state funding, which would decrease the number of grant applications subject to the Board approval process. Anticipated completion summer 2023.
6. MOHCD continues to advocate to the various State agencies that govern affordable housing funding (the California Debt Limit Allocation Committee and the Department of Housing and Community Development) to align funding schedules in order to reduce delays and establish certainty earlier in the development process.
7. An update to the Inclusionary Manual will be produced in early 2024. This will respond to shifts in the inclusionary market and provide clarity on the processes and procedures for leasing inclusionary units.
8. MOHCD is in the process of drafting a project management manual, an internal guide for staff to manage all aspects of the development pipeline. This manual will be used to train new staff, ensure consistency, and document institutional knowledge.

CAPACITY ASSESSMENT AND PLAN: MOHCD's existing capacity to accomplish internal and interdepartmental process improvement is highly dependent on the type of change. If changes are modifying or replacing existing practices, there will be minimal impact. Changes that require intensive interdepartmental coordination among senior staff may strain capacity. If additional funds are made available to increase the City's affordable housing capacity, additional staff and administrative resources will need to be made available.

MOHCD's current approved staffing levels include approximately 35.5 FTE directly supporting new multifamily housing production (including HOPE SF and Small Sites). These staff require the equivalent of 9.3 FTE of indirect support (finance, HR, IT, front desk, data analysis & reporting), for a current total FTE level of 44.8 FTE dedicated to multifamily housing production. MOHCD's multifamily housing production staff is already overburdened, and a staffing level of approximately 48 FTE would be more appropriate for our existing service levels.

These current staffing levels can reasonably support approximately 700 units of multifamily housing production per year. Any increase in expected housing production levels would require a proportional increase in staffing. There are not, unfortunately, economies of scale to be had in this area. The maximum additional FTE which can fit in MOHCD's existing office footprint is approximately 10-15 FTE.

City Attorney time is not included in the above FTE calculation, but any increase in multifamily housing production would require additional City Attorney staff time. MOHCD estimates that each 15-20% increase in multifamily housing production would require 1 FTE additional City Attorney staff time.

COST REDUCTION: The costs of producing affordable housing units in San Francisco continue to escalate.

The Changing Economic Environment for Affordable Housing. Until three years ago, San Francisco's affordable housing developers relied on the availability of tax-exempt bonds and 4% tax credits, allocated by the State, to finance new construction and preservation projects. Federal and state sources funded approximately 60% of the cost of San Francisco's affordable housing projects, while MOHCD filled the remaining financing gap utilizing local funds.

In late 2020, the State bond funding program became competitive for the first time and is now oversubscribed across the state. MOHCD is advocating at the federal level for the expansion of tax-exempt bonds to keep up with the demand for affordable housing and at the State level for new regulations that will prioritize projects that deliver permanent affordability and proximity to jobs and transit. In addition, State policy prioritizes funding for new construction projects that demonstrate greatest cost efficiency, while deprioritizing preservation projects. Compounding our funding challenges, local inclusionary fees from market rate development have essentially dried up, forcing us to do more with dwindling local funds.

Additional market shocks are impacting financing options and development costs, creating new hurdles: inflation; Covid supply chains issues continue to disrupt budgets and timelines; surging interest rates are driving up both holding and construction costs; climate change and natural disasters are increasing insurance rates; the war in Ukraine and sanction on Russia are driving up fuel costs and increasing the cost of iron.

Collectively, these factors are making it increasingly difficult to control for costs and to create predictable funding plans, budgets, and timelines for the production of affordable housing across the country. MOHCD will coordinate with relevant departments and the Mayor's Office to propose and effectuate specific process and policy reforms to address the constraints and cost drivers outlined below.

Local cost drivers and government constraints: Labor and material costs, and anything that causes delays, are the greatest financial challenge facing affordable housing development. Any increase in the time to develop creates cost escalation. The following is not a comprehensive list of cost drivers, just those that are impacted by City constraints and which the City collectively may have some ability to change.

Cost Driver	City government Constraint	Possible Improvement (implementation lead; change mechanism)
Labor availability and cost	<ul style="list-style-type: none"> To support important policy goals, affordable housing is subject to a variety of labor-related requirements such as local hire, First Source, prevailing wage, Small Business Enterprise (SBE) and Local Business Enterprise (LBE). 	<ul style="list-style-type: none"> Create infrastructure to support subcontractors and enhance SBE/LBE system (Contract Monitoring Division; administrative changes).
Urban construction logistics	Multiple agency approvals needed for street space use, Muni re-routing, traffic lane closes, etc.	Streamline process, increasing staffing to reduce approval time (MOHCD, MTA, Public Works, SFPUC; administrative).
Complex General Contractor contracting process	<ul style="list-style-type: none"> Rules regarding bidding, hiring, prevailing wage, etc. are complex and confusing, especially for less experienced firms. Established GCs must support less experienced subcontractors, adding to overhead costs. Permitting process changes, even well-intentioned ones, can cause delays due to lack of understanding of new rules. 	<ul style="list-style-type: none"> Work with CMD, OLSE, and OEWD to ensure rules are clear and enforced consistently in all projects. With CMD, OLSE, and OEWD, seek to provide more support to LBEs and other emerging contractors, lessening the burden on GCs. Provide more advance notice of permit process changes, allow for grace periods to not slow down projects that assume old standards.
Community outreach process	Although not required by regulation, the precedent for extensive outreach during planning adds cost, in particular in high opportunity areas.	<ul style="list-style-type: none"> Establish best practice guidelines that set expectations for the number of community engagement meetings.
Project appeals	Board of Appeals process allows for delays that counter the intent of SB 35.	<ul style="list-style-type: none"> Change Board of Appeals process to comply with SB 35 intent.

Cost Driver	City government Constraint	Possible Improvement (implementation lead; change mechanism)
		<ul style="list-style-type: none"> Limit appeal of demolition.
Permit delays despite Parallel Processing	No other departments start review of Site Permit until Planning completes initial review.	Truly implement parallel review, where all relevant stations start review simultaneously.
MOD site inspections	<p>MOD site inspections trigger renovations: long lead time for new materials, delays receiving final inspection sign off, subsequent delay in receiving final completion certificate and certificate of occupancy resulting in delayed perm conversion, higher construction loan interest and lower equity from downward tax credit adjusters from lease-up delays.</p> <p>Both DBI and MOD review accessibility, which can create inefficiencies and conflicting guidance.</p>	<ul style="list-style-type: none"> Comply with State ADA requirements at time of plan approval only (Ordinance and Administrative). Once the inspection division of MOD is embedded within DBI, the process for identifying which 100% affordable projects need such review and what is required for Site Permit and SIP approval will be clarified via a checklist.
<p>Utility costs</p> <ul style="list-style-type: none"> Ongoing coordination challenges between PG&E and SFPUC Public power mandates All electric requirements 	<p>SFPUC feasibility study for permanent power is required on all MOHCD-funded projects, and almost invariably results in a “feasible” determination.</p> <p>SFPUC water service process is separate from building permit process, so changes in on process could cause changes in the other that are out of sequence with each other.</p>	<ul style="list-style-type: none"> Engage more directly in SFPUC/PG&E process to reduce delays. Separate fund created for power transition period so that affordable housing funds aren’t bearing the burden of delays (Board of Supervisors). Eliminate separate water service application, have SFPUC determine water lateral/meter sizes as part of building permit.
Impact fees	Impact fees on 100% affordable housing increases costs.	Exempt 100% affordable housing from impact fees.
Permit fees	Permit fees on 100% affordable housing increases costs.	<p>Exempt 100% affordable housing from permit fees.</p> <p>DBI piloted a fee waiver program for 100% Affordable Housing in 2019-20. Restarting this program and adding other agencies (SFUSD, SFPUC, DPW, etc.) would reduce costs.</p>

Cost Driver	City government Constraint	Possible Improvement (implementation lead; change mechanism)
Public art requirements, including solicitation process and community engagement	Charter and Planning Code requirements for public art at affordable housing sites.	Modify charter requirement for the inclusion of public arts (Charter Amendment). Remove Planning Code Sec 429 (Ordinance).
General Plan referral requirements	Planning Code requires General Plan referrals for all proposed development.	Remove requirement for General Plan referrals for shelters, 100% affordable housing, permanent supportive housing, and development agreement projects (Planning Code) (Housing Element Implementation Plan item 8.6.4).
Insufficient project-based vouchers; these can typically leverage private mortgage	SFHA resuming Project Based Voucher program after several years of limited resources.	SFHA-MOHCD alignment and coordination (Administrative).
Board approval requirements	MOHCD is required to obtain Board approval for all funding transaction that exceed \$10M. This additional 6 weeks on all funding transactions can add cost to the bottom line.	Delegate authority to MOHCD to fund affordable housing projects (Charter Amendment).
SF Housing Authority referral process	Lengthy application process with the SFHA Applicants want access to the building for tours.	Regular purging, opening and refreshing of SFHA waitlists in order to speed referral and lease up. Ongoing process improvement - work with SFHA and partners.

Potential Project Delays or Cost Increases

Year 1: Site Acquisition

- Limited funding for acquisition
- Misalignment of acquisition NOFA and market opportunities
- Land dedication delays due to market conditions
- Negotiations with other public agencies over dispositions of surplus lands

Year 2: RFQ for development team

- Competitive and transparent procurement process is time consuming
- Limited pre-development funds

Year 3: Community Engagement and Project Design

- Community opposition to housing type, building scale
- Unanticipated site constraints (environmental, geotechnical, etc.)

Potential Project Delays or Cost Increases

Year 4: Permitting and Financing

- Declined applications for state funding, requiring project rescope or re-application, some are only once annually and some MOHCD projects do not meet scoring criteria
- Declined application for state bond allocations, can cause state funding awards to expire
- Misalignment with state funding and bond allocation policy priorities, schedule, and process
- Permit appeals
- Parallel processing delays

Year 5-6: Construction

- Rising costs: labor, materials, insurance
- Urban construction logistics
- Both temporary and permanent power connections
- Increasing interest rates for construction loans
- Fluctuations in tax credit pricing
- Extreme weather impacts on construction sites
- Sequencing of final inspections
- Logistical challenges of relocation for rehab projects

Year 7: Lottery, Leasing, and Occupancy

- Delays in lease-up for higher income units due to post COVID market conditions
- Referral process for Housing Choice Voucher (HCV) units
- Staff capacity at leasing agency