Affordable Housing Funding, Production, and Preservation

WHITE PAPER

Prepared as Part of the
San Francisco Planning Department's

Housing Affordability Strategies

San Francisco Planning

Table of Contents

Introduction

The Housing Affordability Strategies (HAS) project examines how the City of San Francisco can improve housing affordability over the next 30 years, particularly for low- and moderate-income households. The HAS analyzes how to achieve San Francisco's housing targets – created both through Mayoral action and the will of the voters – of 5,000 new housing units per year, one third of which should be permanently affordable at low and moderate incomes. In addition, the HAS analyzes policies and programs to preserve affordable housing and to protect and stabilize residents.

This white paper accompanies the primary HAS report with more detail on affordable housing funding, production, and preservation in San Francisco. This report summarizes past trends and analyzes typical costs to the City for producing and preserving affordable units in recent years. The HAS affordable housing production and preservation targets are analyzed and compared to the City's projected affordable housing revenues. This report concludes with a discussion of potential ways to fill this funding gap.

Affordable Housing Funding

Producing and preserving affordable housing is most often accomplished by stitching together a complex array of subsides and financing sources. Subsidies help cover the gap between the cost of building or acquiring housing and what lower income households can afford to pay. This section provides an overview of major funding sources critical to affordable housing production and preservation in San Francisco today, including federal, state, and local sources, and how they have changed over time.

Nearly all available funding sources at the federal, state, and local levels described serve low income households earning up to 80% of Area Median Income (AMI) or below. Very few sources are available for moderate- and middle-income households (earning up to 120% of AM and approximately 150% of AMI, respectively). In addition, providing deeper affordability to the lowest income residents (extremely low income households earning less than 30% of AMI) or those with social service needs requires more subsidy.

Federal and State Housing Programs

Federal and state funding sources most typically used for affordable housing production and preservation are listed below. Most of these federal and state programs are leveraged with local funding sources, as they do not cover full cost of development.

- Low-Income Housing Tax Credit (LIHTC). The LIHTC program is a federal tax subsidy that gives investors a roughly dollar-for-dollar credit on their tax liability in exchange for equity contributions to subsidize affordable housing development projects. LIHTC equity is often the largest source of subsidy for affordable housing production and may also be used for affordable housing preservation.

There are two major types of tax credits: 9% credits, which are highly competitive, and 4% credits that are paired with tax-exempt bonds, which have become competitive this year. The California Tax Credit Allocation Committee administers and allocates tax credits throughout the State of California.

- Section 8 (or Housing Choice Vouchers). Section 8 is a federal rental assistance program that provides rental payments directly to landlords. Approximately 9,500 federal Housing Choice Vouchers are used by San Francisco households today. Vouchers are limited by lack of federal funding and are estimated to be available to about a quarter of income-qualifying renters nationally.[1] In the case of project-based vouchers, Section 8 can also be leveraged to support loans for affordable housing development.

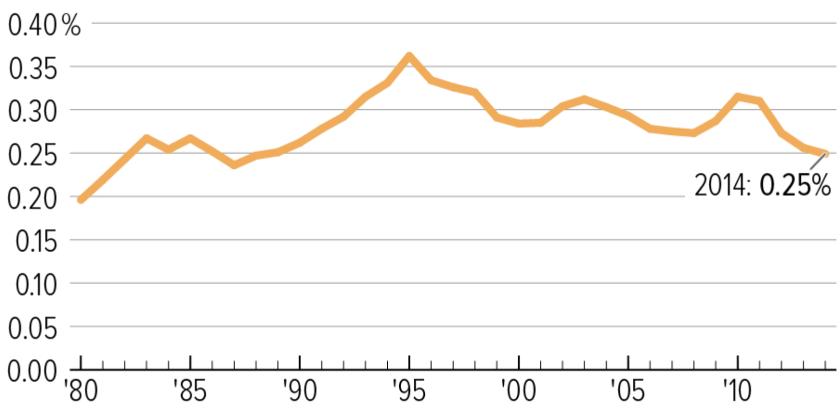
- Other federal sources. These include programs such as HOME, Community Development Block Grants (CDBG), Housing Opportunities for People with AIDS (HOPWA), Emergency Solutions Grants (ESG),and the Affordable Housing Program (AHP); however, federal funding for affordable housing has declined significantly in the last two decades. For example, Figures 1 and 2 illustrate the decline in federal funds for various federal programs nationally (Figure 1) and in California (Figure 2).

- State of California Affordable Housing and Sustainable Communities (AHSC). AHSC is a competitive state grant program that promotes infill development and the reduction of greenhouse gas emissions. AHSC encourages combined investments in deed-restricted affordable housing, transit, and active transportation infrastructure. AHSC is one of California's major funding sources for new affordable housing construction.

- Other state sources. With the 2017 and 2019 state legislative housing packages and the authorization of a state general obligation affordable housing bond, new sources are funding programs such as the Multifamily Housing Program (MHP), the Infill Infrastructure Grant (IIG), and the Permanent Local Housing Allocation (PLHA). Some of the revenue sources are one-time budget allocations or are based on fees that will fluctuate over time.

This list does not include older programs that have since expired or become inactive. For example, previous US Department of Housing and Urban Development (HUD) programs include public housing, Section 202 (funding for housing for the elderly), Section 211 (funding for housing for people with disabilities), and others.

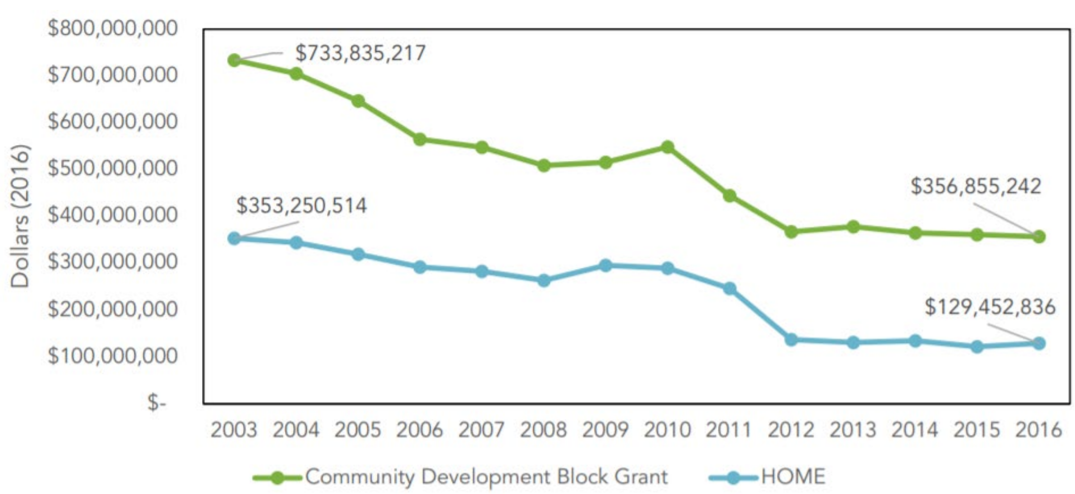
Figure 1. **Federal Discretionary Spending for Housing Assistance Relative to GDP, 1980–2016**



Note: GDP = gross domestic product. "Housing assistance" includes the Section 8, public housing, homeless assistance, Section 521, HOME, Native American Housing, HOPWA, and Section 202 and 811 programs, as well as many smaller programs.

Source: Office of Management and Budget, and Center on Budget and Policy Priorities, April 2016, "Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing", available at: https://www.cbpp.org/recent-housing-cuts-continue-20-years-of-federal-disinvestment. Graphic and calculations by Center on Budget and Policy Priorities.

Figure 2. **Federal HOME and Community Development Block Grant Allocations to California, 2003 to 2016 (Adjusted for Inflation in 2016 Dollars)**



Source: United States Department of Housing and Urban Development, Office of Community Planning and Development Appropriations Budget, Formula Program Allocations by State, California. Inflation adjustment to 2016 dollars using Consumer Price Index 2003-2016 from Federal Reserve Bank of Minneapolis. Graphic obtained from: California Housing and Community Development Department, February 2018, "California's Housing Future: Challenges and Opportunities. Final Statewide Housing Assessment 20205", available at: https://www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_Final_Combined.pdf

City of San Francisco's Funding for Affordable Housing

This section describes the City of San Francisco's affordable housing expenditures from 2006 to 2018. San Francisco's affordable housing expenditures are heavily focused on the production and preservation of 100% affordable housing projects that serve households earning 80% or less of AMI. Very few sources target moderate- or middle-income households.

The Mayor's Office of Housing and Community Development (MOHCD) administers most of San Francisco's revenue sources for affordable housing. The Office of Community Investment and

Infrastructure (OCII) is a state-authorized local entity serving as the successor to the former San Francisco Redevelopment Agency. OCII has long-term major development projects and continues to administer previously approved funds and projects to meet its enforceable obligations that predate dissolution of Redevelopment agencies in California.[2] Together, these agencies oversee San Francisco's major revenue sources, including:

- **Voter-approved affordable housing bonds**, such as the Seismic Safety Bond and the 2015 affordable housing bonds (note that the 2019 affordable housing bond is not captured in the historical 2006-2018 data);
- **Development impact fees**, including in-lieu fees paid by market-rate housing developers who choose to comply with the City's Inclusionary Housing Program through fee payment, jobs-housing linkage fees paid by developers of new commercial space, and area fees collected in special zoning districts;
- **General Fund revenue** invested per voter mandates and allocations by elected officials;
- **San Francisco's former Redevelopment Agency and current funding** enforceable obligations for affordable housing developments committed to before the dissolution of Redevelopment through the Office of community Investment and Infrastructure (OCII); and
- **State and federal funds** that the City receives, such as HOME funds.

Figure 3 summarizes San Francisco's annual affordable housing expenditures from 2006-2018, by funding source. Key findings are described below.

The ability to leverage federal and state sources is contingent on the availability of local subsidies. San Francisco's local funding is essential to affordable housing production and preservation efforts because it fills the funding gap between total development costs and what is subsidized by state and federal sources and private investment. More information on the typical funding stack of new 100% affordable housing projects and preservation acquisition projects is provided in later sections of this white paper.

San Francisco's annual affordable housing expenditure has fluctuated significantly over time, due to economic cycles and the variability of local funding. As seen in Figure 3, expenditures increased rapidly in the late 2000s, peaking in 2009 at $120 million. However, with the Great Recession, expenditures declined drastically. As the economy picked back up, expenditures did slowly as well; but in 2012, California's Redevelopment Agencies were dissolved, which resulted in another significant drop in expenditures. Since 2016, expenditures have begun to rise again due to the implementation of new funding sources and the ability of OCII to fund remaining enforceable obligations to build affordable housing. Annual expenditures reached a record high of $196 million in 2017 and 2018. From 2006 to 2018, annual expenditures averaged $103 million per year.

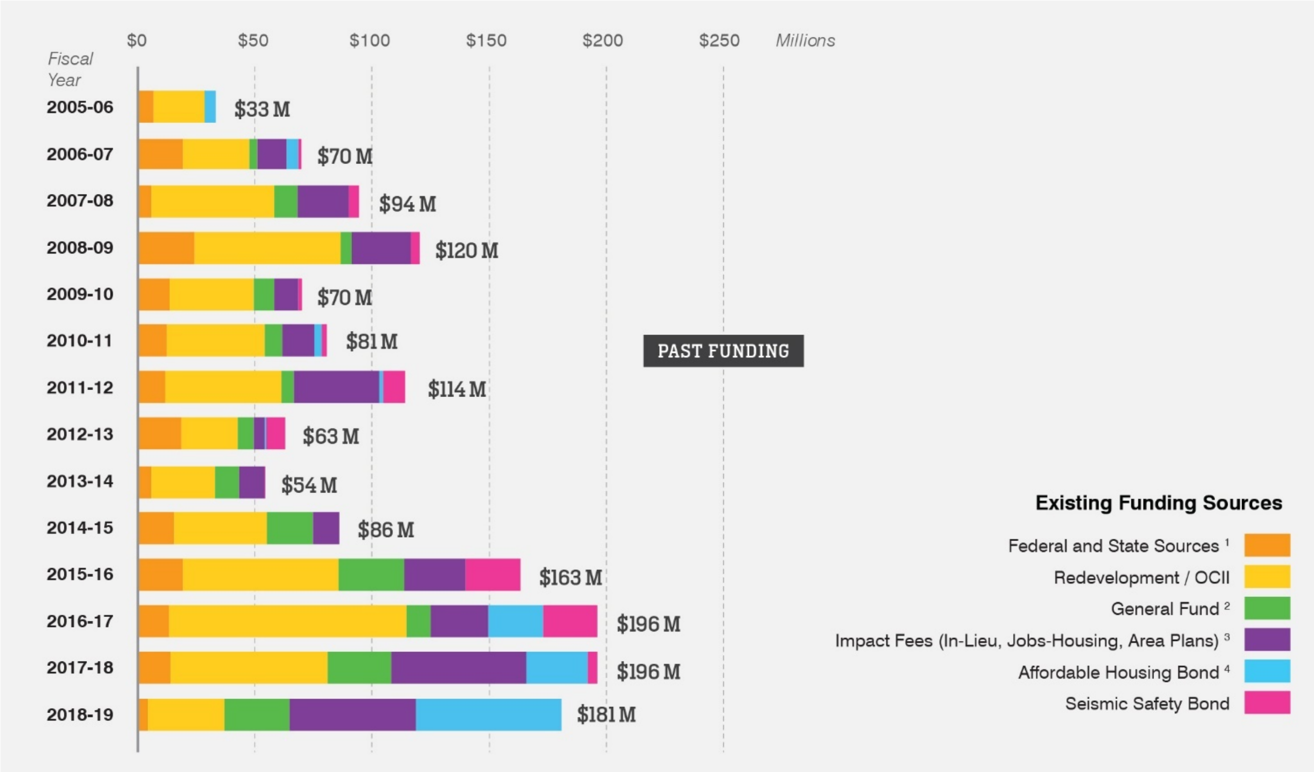
Until 2012, the largest local affordable housing funding source was San Francisco's Redevelopment Agency. Redevelopment, which relied on tax increment financing, contributed over 50% of San Francisco's annual affordable housing expenditures, on average, through 2012. When Redevelopment Agencies were ended statewide in 2012, local funding was significantly affected. Since then, OCII has overseen the completion of previously approved redevelopment plans and its enforceable obligations including affordable housing developments.

New local funding sources have filled the gap left by Redevelopment and expanded local funding. With a need to fill the funding gap left by redevelopment as well as calls to increase affordable housing production, San Francisco voters and elected officials turned to additional funding sources. The role of development impact fees – namely affordable housing in-lieu fees and jobs-housing linkage fees – has grown significantly since 2016. Local bond measures have also become a more common funding source (e.g. Proposition A passed in 2015 and Proposition A passed in 2019).[3] The City has also increasingly relied on General Fund revenue (including with the passage of Proposition C in 2012 to establish the Housing Trust Fund). Note that most of these sources are not permanent sources of revenue (e.g. bonds), and some are highly dependent on the broader economy (e.g. development impact fees).

Additional funding sources have recently been approved. In 2018, San Francisco voters passed Proposition C, which authorizes a new tax on businesses , with the exception of companies that have entered into a voluntary agreement with the City to do so; however, if Prop C is implemented, it will generate a new source of permanent funding for homelessness programs and housing.[4] In 2019, the Board of Supervisors also passed an ordinance to establish the use of excess Education Revenue Augmentation Fund (ERAF) revenue for affordable housing production and preservation. The Board of Supervisors has discretion over the use of these funds. Also in 2019, San Francisco voters passed Proposition A, which authorizes a $600 million affordable housing bond. These recent funding sources are listed in Figure 4.

Property Taxes are the primary funding source for affordable housing as well as development- and business-related taxes. Most funding sources for affordable housing are paid for with local property tax revenue, including voter-approved affordable housing bonds. ERAF funds are property tax revenues that are deposited in a state-mandated fund for education and returned to cities when the fund reaches the required level. The City's Housing Trust Fund is also heavily reliant on property tax revenue, as is the City's General Fund. Redevelopment funding is provided by tax increment financing that is based on increases in property tax revenue within redevelopment areas. New housing and office development fund affordable housing directly through inclusionary housing and in-lieu fee payments or jobs-housing linkage fee payments. The value of new developments also boosts San Francisco's property tax revenue, increasing the City's available funding. Without new development and property sales that trigger reassessment of property, the City's property tax revenue grows slowly because of California's Proposition 13, which limits the annual increases in assessed value to 2% or less per year. In addition to property taxes, San Francisco also uses a small portion of hotel taxes, dependent on the local tourist economy, to fund the Housing Trust Fund.

Figure 3. City of San Francisco Affordable Housing Past Funding by Source in Millions, 2006-2019



Note: Expenditures are shown by fiscal year and include funding for production and preservation of affordable housing.
(1) Includes HOME and CDBG
(2) Includes land sales and Certificates of Participation (COPs)
(3) Includes area-specific fees, inclusionary housing fees, and jobs-housing linkage fees
(4) Includes 2015 Proposition A and 2019 Proposition A housing bonds In 2019
(5) The Board of Supervisors passed an ordinance to establish the use of excess
Source: San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Figure 4. Selection of Affordable Housing Funding Propositions and Ordinances since 2012

Name	*Year*	*Description*
Proposition C, Creation of a Housing Trust Fund	2012	Establishes the Housing Trust Fund, by setting aside General Fund revenues
Proposition A, Affordable Housing Bond	2015	Authorizes a $310 million general obligation affordable housing bond.
Proposition C, PASS Program	2016	Authorizes the repurposing of previously unused bond capacity for the Preservation and Seismic Safety Program, or PASS
Proposition C, Gross Receipts Tax	2018	Currently under litigation. Authorizes a new tax on businesses earning more than $50 million in gross receipts.
Ordinance on use of excess ERAF revenue	2019	Ordinance approved by Board of Supervisors allowing use of excess Education Revenue Augmentation Fund (ERAF) for affordable housing
Proposition A, Affordable Housing Bond	2019	Authorizes a $600 million general obligation affordable housing bond.

Source: City of San Francisco Planning Department, 2020; Strategic Economics, 2020.

Affordable Housing Production

This chapter describes trends in the production of new deed-restricted affordable housing in San Francisco from 2006 to 2018. This chapter also summarizes how funding and financing, sites, and various other processes come together to produce new affordable housing projects in San Francisco, based on a sample of recent affordable housing projects.

Affordable Housing Production Trends

Findings in this section are based on data from the San Francisco Housing Inventory Reports, published annually by the San Francisco Planning Department.[5] Two types of affordable housing units are discussed:

- Deed-restricted affordable units provided mostly in 100% affordable housing development projects affordable to lower income households
- Units created through San Francisco's Inclusionary Housing Program, also called Below Market Rate (BMR) units affordable to low and moderate households.

The following subsections summarize production trends by housing type and affordability level. Figures 5, 6, and 7 summarize the annual production of new affordable and market rate units in San Francisco from 2006 to 2018, by housing type (inclusionary units and 100% affordable and other deed-restricted units). Note that while Accessory Dwelling Units (ADUs) are included in Figure 5, ADU production trends are reviewed in more detail in a later section.

The number of new affordable units produced annually since 2006 has fluctuated significantly, with an average of 650 units per year. As seen in Figures 5 and 6, affordable housing production ranged from under 200 units in 2011, to nearly 1,400 units in 2017. In all, 8,425 new affordable units have been produced since 2006, compared to 25,300 new market rate units. Affordable units represent about 24% of all new production, not including ADUs.

The fluctuation in affordable housing production reflects the major changes in funding from the last several years. The production of affordable housing depends heavily on the availability of local funding; the speed at which projects can be completed also depends on the reliability and predictability of funding. Note that annual expenditures, shown in Figure 3, do not line up neatly with annual production, shown in Figures 5-7, due to the lag between predevelopment/financing stages and project completion, as well as the complex ways in which local funding is disbursed.[6]

On average, the City's Inclusionary Housing Program generated one third of new affordable units built in San Francisco since 2006. As seen in Figure 7, the production of inclusionary units picked up in 2011, as the economy recovered from the Great Recession and market rate residential development increased. On average, the City has produced about 210 inclusionary units per year. More information on the Inclusionary Housing Program is provided in a later section.

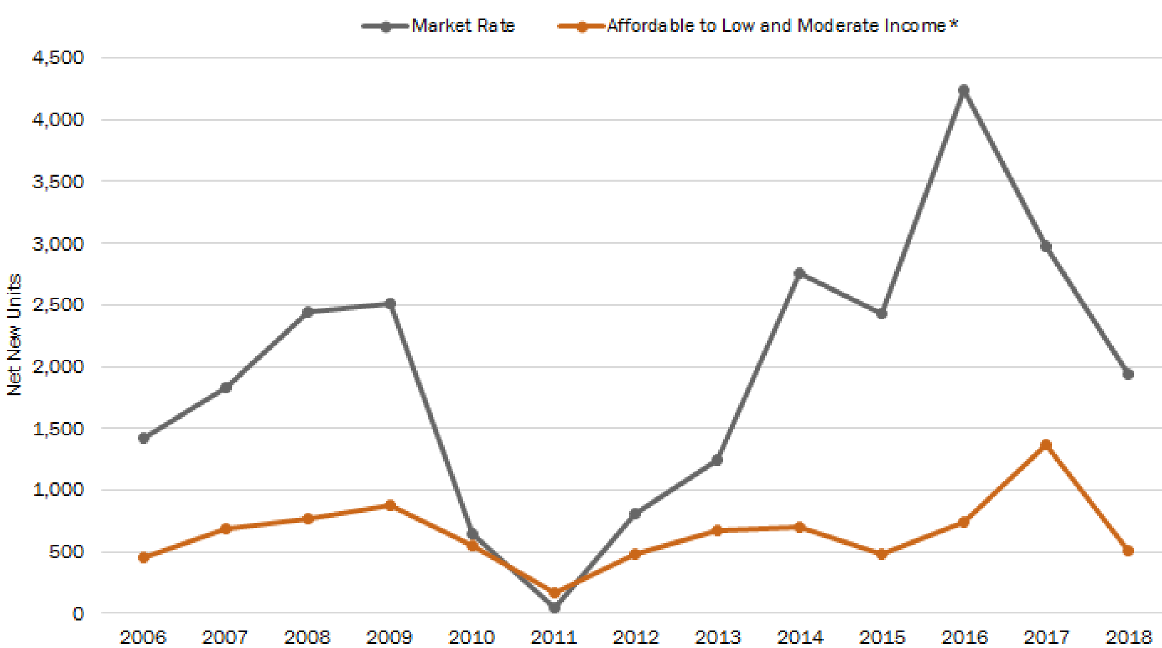
100% affordable housing represents two thirds of new affordable units built in San Francisco from 2006 to 2018. This housing type is the most dependent on the local funding sources described in the previous section, and therefore, fluctuates significantly with broader economic cycles (e.g. development impact fees), with the availability of bond measures (i.e. one-time bonds may run out), and/or other state and federal policy and funding decisions. On average, the City produced 436 deed-restricted affordable housing units per year. Note that the peak in 2017 is in part due to new affordable units created through the HOPE SF program, described in detail in Chapter 4.

Figure 5. **Total and Average Annual Housing Production in San Francisco, 2006 to 2018**

	Total Production, 2006 to 2018	*Average Annual Production, 2006 to 2018*	*% of Total Production*
Market Rate Units	25,289	1,945	73%
Units Affordable to Low/Moderate Income Households	8,425	648	24%
Inclusionary (BMR)	2,761	212	8%
Other Deed-Restricted Affordable	5,664	436	16%
New or Legalized Accessory Dwelling Units	794	61	2%
Total Units Produced	34,508	2,654	100%

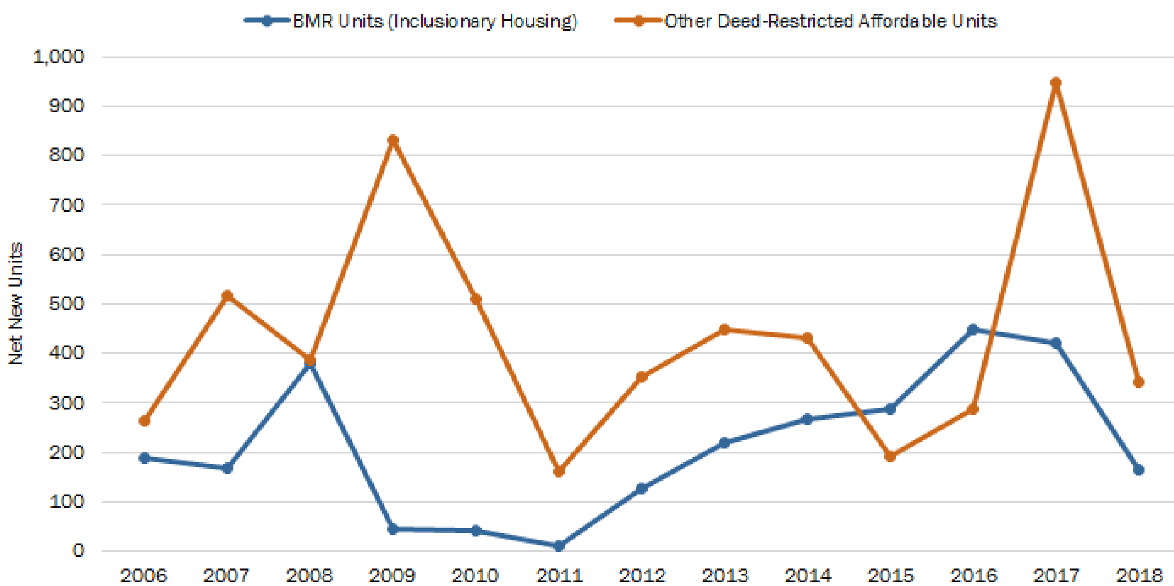
Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2018; Strategic Economics, 2020.

Figure 6. **San Francisco Annual Housing Production, Affordable and Market Rate, 2006-2018**



*Affordable to low and moderate income includes Inclusionary BMR units and other deed-restricted affordable units. New or legalized ADUs are not included.
Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2019; Strategic Economics, 2020.

FIGURE 7. San Francisco Annual Affordable Housing Production by Housing Type, 2006–2018



Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2018; Strategic Economics, 2020.

Location

The majority of new affordable housing built since 2006 is located in San Francisco's eastern neighborhoods. The areas that have seen the most construction of new 100% affordable housing projects are the Mission, the Tenderloin, South of Market, the Western Addition, and Bayview Hunters Point. Furthermore, because most new market-rate development has occurred in the eastern neighborhoods, most new inclusionary BMR units are also located in these neighborhoods.

Affordability Level

Figure 8 summarizes the annual production of new affordable units in San Francisco from 2006 to 2018 by affordability level.

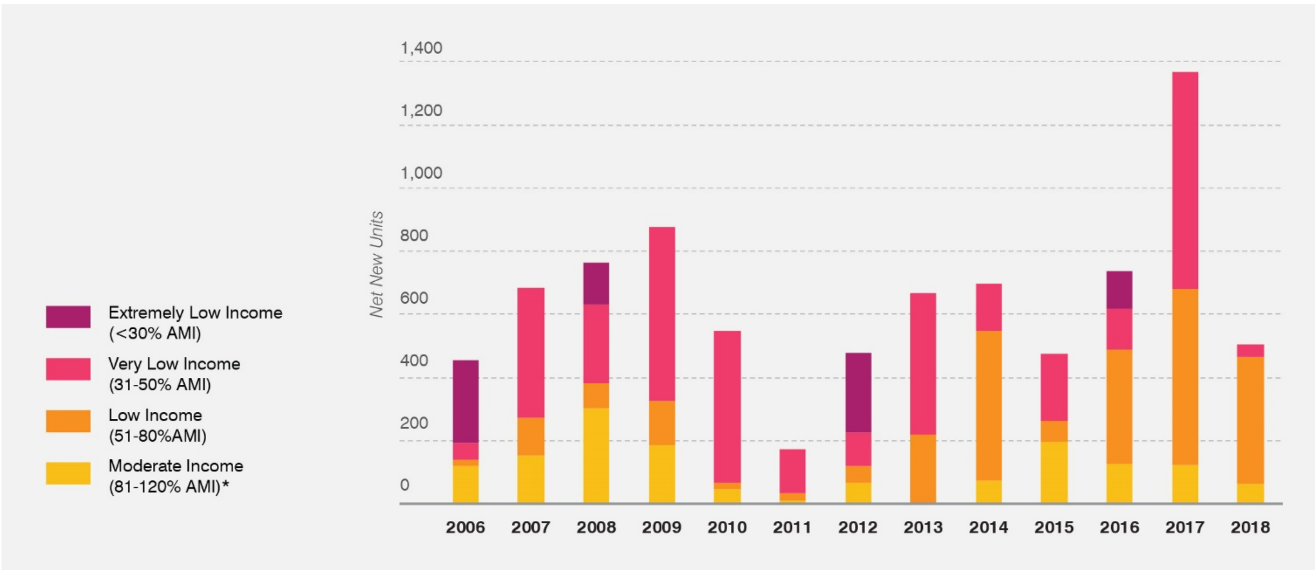
About 43% of new affordable units built between 2006 and 2018 target very low-income households (31-50%%of AMI). Very low-income units consistently represent the largest share of affordable units built in San Francisco.

Since the early 2010s, new affordable units are increasingly targeting low income households (51-80%%of AMI). Overall, 30% of new affordable units built between 2006 and 2018 target low income households. Starting around 2013, however, a larger number of new affordable units began targeting low-income households. This is due to San Francisco's Inclusionary Housing Program, which, for rental housing, requires BMR units mostly in the low-income bracket.

Only a small share of new affordable units built since 2006 serve extremely low-income households (under 30%%of AMI). Of all affordable units built since 2006, only 9%% serve extremely low-income households. This is one of the hardest income groups to serve, due to (1) the significant funding gap between what households can afford to pay and the cost of development, and (2) the need for additional on-site social services and operating subsidies. The production of extremely low-income units has been sporadic, with units coming online on an irregular basis.

Moderate income units represent 17% of new production since 2006, reflecting the role of San Francisco's Inclusionary Housing Program.

Figure 8. **San Francisco Annual Affordable Housing Production by Affordability Level, 2006-2018**



Does not include new or legalized ADUs.
Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2018; Strategic Economics, 2020.

Producing Moderate Income Units is often seen as challenging because most local, state, and federal affordable housing funding targets lower income households, who are at greater financial need. Though moderate income households can afford higher rents than lower income households, they often can not afford rents that can pay for the high cost of new development in San Francisco. As a result of high costs and lack of state and federal subsidy, production of units affordable at moderate incomes can require more local subsidy to produce than a low income unit. Despite these challenges San Francisco does produce moderate income housing in various ways:

- San Francisco's Inclusionary Housing Program requires the production of BMR units affordable to moderate-income households, one of the main ways the City produces new moderate income units.
- The City is subsidizing a mix of low and moderate income units in at least two developments, including an educator housing site in the Sunset District.
- Depending on funding availability, the City has offered loans to moderate and middle income home buyers buy a home in the market through the Down Payment Assistance Loan Program (DALP) providing a down payment loan to that is repaid when the home is resold.

- ADUs, discussed more below, are also considered to be affordable at moderate incomes according to state policy though actual ADU rents are set at the landlord's discretion.

San Francisco's Inclusionary Housing Program

San Francisco's Inclusionary Housing Program has gone through multiple iterations in the last decade. Current legislation is summarized in San Francisco's Planning Code Sections 415 through 415.11. Developers may choose from several alternatives, including building inclusionary units on-site, building BMR units off-site, or paying an in-lieu fee. Specific requirements vary by building size, tenure, and neighborhood. An overview of requirements for the on-site alternative is provided in Figure 9.

Because requirements have changed over time, and because the production of BMR units depends on market rate development activity, the total number of inclusionary units produced annually varies significantly from year to year (see Figure 7). When market rate development dropped significantly during the Great Recession, very few inclusionary units were produced. More recently, San Francisco's Inclusionary Housing Program has produced hundreds of inclusionary units and contributed in-lieu fee revenues. However, as the requirements escalate, and development costs continue to increase, the financial feasibility of market-rate development may be challenged.

Figure 9. **San Francisco Inclusionary Housing Program Requirements: On-Site BMR Units**

	Ownership		Rental	
	% of Market Rate Units	*AMI Level*	*% of Market Rate Units*	*AMI Level*
Projects with 10-24 units	**13%** as of January 1, 2020 (Baseline of 12% with an annual increase of 0.5% until rate reaches 15%)	80% AMI	**13%** as of January 1, 2020 (Baseline of 12% with an annual increase of 0.5% until rate reaches 15%)	55% AMI
Projects with 25+ units	**22%** as of January 1, 2020 (Baseline of 20%, with an annual increase of 1% in the first two years, and 0.5% in subsequent years until rate reaches 26%)	12% at 80% AMI 5% at 105% AMI 5% at 130% AMI	**20%** as of January 1, 2020 (Baseline of 18%, with an annual increase of 1% in the first two years, and 0.5% in subsequent years until rate reaches 24%)	12% at 55% AMI 4% at 80% AMI 4% at 110% AMI
Projects with 25+ units located in three subareas*	**27%**	15% at 80% AMI 6% at 105% AMI 6% at 130% AMI	**25%**	15% at 55% AMI 5% at 80% AMI 5% at 110% AMI

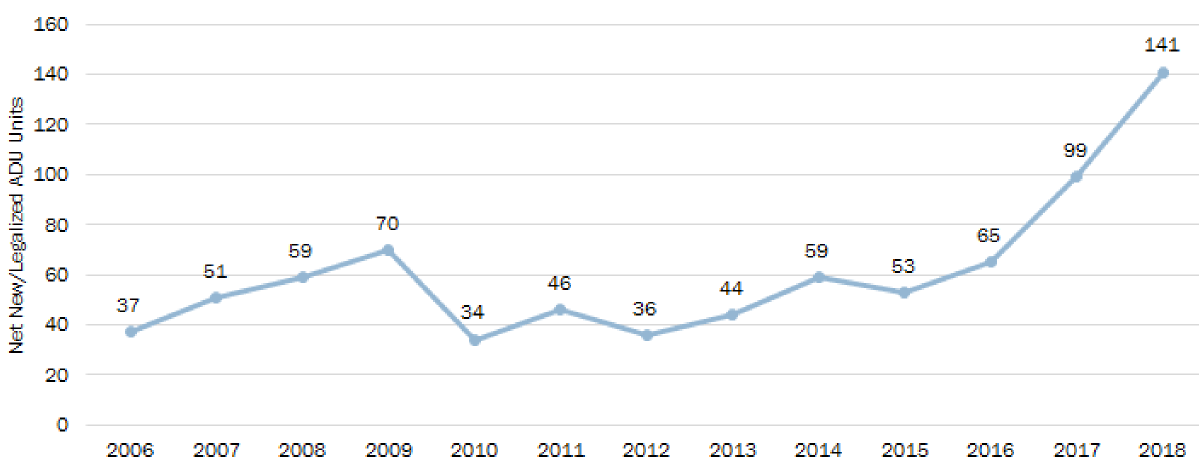
* Subareas are: Mission Planning Area, North of Market Residential SUD (Tenderloin), and SoMa NCT (6th Street)
Source: City of San Francisco Planning Department Compliance with the Inclusionary Affordable Housing Program, October 2018.

Accessory Dwelling Units (ADUs)

New or legalized secondary units added to existing structures, called Accessory Dwelling Units (ADUs), are another housing type that can contribute to housing affordability. New ADUs are built by individual property owners who are willing and able to invest time and capital into this process. On average, the production of these units in existing buildings cost less than units in new buildings. The City of San Francisco plays a key role in supporting property owners but does not directly engage in the production of ADUs. Furthermore, ADUs are not deed-restricted or subsidized, but they may be affordable to moderate income households and are counted as moderate income housing in data tracking housing approvals and production required by the State of California. However, rents in ADUs are ultimately at the discretion of property owners.

From 2006 to 2018, nearly 800 ADUs were produced or legalized citywide, equivalent to about 60 ADUs produced or legalized annually. The last few years have seen an upward trend in ADU production or legalization, with a steady increase since 2016 and a record high of 141 units in 2018 (Figure 10). This is likely due to recent regulatory changes at the state and local level to facilitate ADU production.

Figure 10. **San Francisco Annual Production or Legalization of ADUs, 2006 to 2018**



Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2018; Strategic Economics, 2020.How Funding, Financing, Sites, and Process Come Together: 100% Deed-Restricted Affordable Housing Projects

How Funding, Financing, Sites, and Process Come Together: New Construction of 100% Affordable Housing

This section summarizes the typical funding sources required to cover the development costs a 100% deed-restricted new affordable housing project serving lower income renters at 80% of AMI in San Francisco, based on a sample of eleven recent affordable housing project pro formas. The sample, listed in Figure 11, only includes 4% LIHTC projects.[7] Pro formas were obtained from the California Tax Credit Allocation Committee, and were supplemented by qualitative information provided by MOHCD. This section concludes with a case study of a project currently under construction in the Mission District (Casa Adelante, at 2060 Folsom Street).

San Francisco's average funding "stack" (the combination of funding and financing used to pay for the development), based on the sample of recent affordable housing projects, is summarized in Figure 12 and Figure 13. Key takeaways are described below:

- Total development costs. The total development cost of an affordable housing project in San Francisco was about $693,000 per unit, based on pro formas from 2017 and 2018 (not including the cost of land acquisition).
- Local funding contribution. The City of San Francisco contributed about $257,000 per affordable unit, on average, or 37% of total development costs. This represents a large dollar amount, and a large share of the funding stack, compared to other cities in the region.
- Publicly owned land. In addition to providing local funding, MOHCD almost always owns the land for each of the projects listed in Figure 12 and entered into individual lease agreements with developers. Given the highly competitive environment for land acquisition in San Francisco, having a flexible and patient lender or landowner such as MOHCD can make a significant difference for nonprofit affordable housing developers. Furthermore, discounting the land at below market rates can reduce the funding gap and enhance a project's competitiveness for other public subsidies. The San Francisco Housing Accelerator Fund (SFHAF) has also been helpful in funding site acquisitions, allowing affordable housing developers to be more agile when purchasing site. Note that the funding stack shown in Figures 13 and 14 do not fully represent the value of land subsidies or discounted land prices. Based on current land values in San Francisco, it is estimated that acquiring sites for affordable housing development would cost approximately $450 per square foot of land, or $100,000 per unit. (See more on sites for affordable housing in the following section.)
- Federal and state sources. Projects leveraged a variety of other sources, including 4% tax credits, the state Affordable Housing and Sustainable Communities grant, and Affordable Housing Program (AHP) grant. In addition, five out of eleven projects in the sample received Section 8 project-based vouchers. Tax credits were the largest single funding source on average for 100% affordable projects.
- Conventional loans from private banks. Affordable housing projects also depend on permanent financing from private banks. These loans are backed by the rental income received from tenants and by subsidies from project-based Section 8 vouchers.

Note that the information provided in this section is an average funding stack. In reality, total development costs may vary for projects that target deeper levels of affordability or offer more comprehensive social services (e.g. for seniors, people with disabilities, etc.)

Figure 11. **Sample of Recent Affordable Housing Projects in San Francisco**

Project Name	Date of Pro Forma	Total Units	Project Type*
1950 Mission Street	2018	157	Non-Targeted
2060 Folsom Family Housing (Casa Adelante)	2018	127	Large Family
88 Broadway	2018	125	Non-Targeted
735 Davis	2018	53	Seniors
Mission Bay South Block 6 West	2018	152	Non-Targeted
490 South Van Ness Ave	2018	81	Non-Targeted
1990 Folsom	2018	143	Non-Targeted
Eddy & Taylor Family Housing	2017	113	Non-Targeted
455 Fell	2017	108	Large Family
1150 Third Street (Mission Bay South Block 3 East) Special	2017	119	Special Needs
1296 Shotwell Senior Housing	2017	94	Seniors

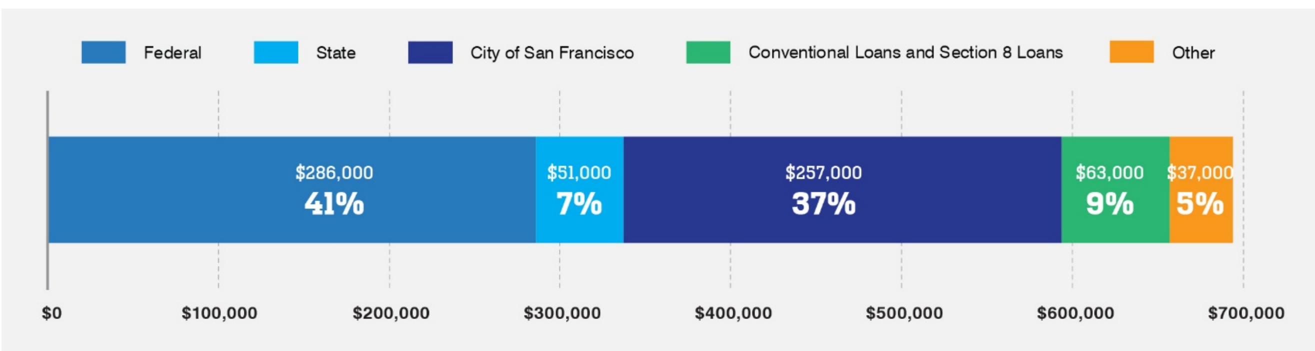
Note that all projects in the sample use 4% Low Income Housing Tax Credits.
* It should also be noted that nearly all 100% affordable developments built in San Francisco since the mid-2000s have included onsite permanent-supportive units for extremely low-income , formerly homeless residents with operating subsidy through the City's LOSP program described more below.
Source: California Tax Credit Allocation Committee, 2017-2018.

Figure 12. Average Funding Stack for a Sample of Affordable Housing Projects in San Francisco

Source	*Average Per Unit Cost (a)*	*Share of Total Cost*
Federal		
Low Income Housing Tax Credit Equity, 4% (b)	$273,000	39%
Other Federal Sources	$13,000	2%
State of California		
Affordable Housing and Sustainable Communities (AHSC)	$35,000	5%
Other State Sources	$16,000	2%
City of San Francisco Subsidy (c)	$257,000	37%
Conventional Loans and Section-8 Loans	$63,000	9%
Deferred Developer Fees	$23,000	3%
Other (d)	$14,000	2%
Total Development Costs	$693,000	100%

Note: Based on a sample of eleven affordable housing projects from 2017 and 2018.
(a) Numbers are rounded to the nearest thousandth.
(b) All projects in the sample use 4% Low Income Housing Tax Credits.
(c) Land costs are not included in the City's contribution. Each project has entered into a ground lease agreement with MOHCD.
(d) Other includes Deferred Interest and General Partner contributions.
Source: California Tax Credit Allocation Committee, 2017-2019.

Figure 13. Average Funding Stack for a Sample of Affordable Housing Projects in San Francisco



Note: Based on a sample of eleven affordable housing projects from 2017 and 2018. Land costs are not included in the City's contribution. Each project has entered into a ground lease agreement with MOHCD. Other includes Deferred Interest and General Partner contributions.
Source: California Tax Credit Allocation Committee, 2017-2019.

Example of a New Affordable Housing Project:
Casa Adelante at 2060 Folsom Street, San Francisco

Casa Adelante, at 2060 Folsom Street in the Mission District, is a 100% affordable housing project jointly developed by the Chinatown Community Development Center and the Mission Economic Development Alliance (MEDA). It is currently under construction. It will include 127 units affordable to low-income households and units for extremely low income homeless transitional youth and parenting youth.

The project's total development cost is estimated at $687,000 per unit, or $87.3 million total. The project received a $262,000 per unit subsidy from the City of San Francisco. This project would have not been possible without the multiple other sources that were secured, as listed below:

- $33.2 million in federal and state tax credit equity ($261,000 per unit)
- $1.9 million from the Affordable Housing Program (AHP) grant ($15,000 per unit)
- $9.3 million from the State of California Affordable Housing and Sustainable Communities (AHSC) grant ($73,000 per unit)
- $6.8 million in conventional bank loans ($53,000 per unit)
- $2.8 million in deferred developer fees ($22,000 per unit)

In addition, this parcel was previously owned by the San Francisco Public Utilities Commission (PUC), and was transferred to MOHCD in 2011 for the purpose of developing affordable housing. PUC sold the land to MOHCD at a below market rate value. The developers are now ground leasing the parcel from MOHCD.

Source: California Tax Credit Allocation Committee, 2018; and San Francisco Mayor's Office of Housing and Community Development, January 31, 2019 press release available at: https://sfmohcd.org/article/mayor-london-breed-and-community-leaders-celebrate-groundbreaking-new-affordable-housing

Figure 15. **Rendering of the Casa Adelante Project**

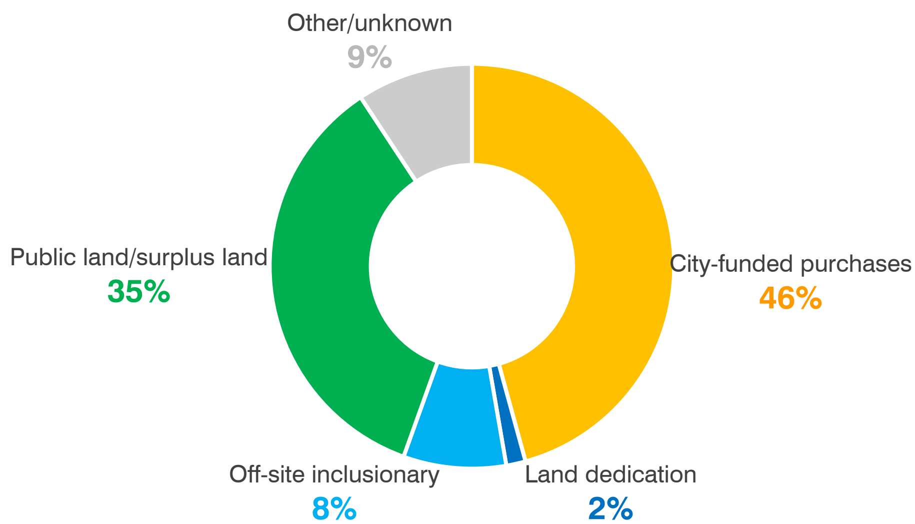
Source: Mithun Architects, 2018.

Site Acquisition

As discussed above, most deed-restricted affordable housing projects are built on sites provided by the MOHCD. Based on a review of deed-restricted, 100% affordable housing projects built since 2005, there are four different ways of acquiring sites (Figure 14):

- City-funded acquisitions, in which MOHCD purchases properties directly from private landowners. About 46% of the affordable housing units built in 100% deed-restricted projects were on sites that were purchased by the City.
- Surplus public lands are sites that have been owned by the City (including former redevelopment agency sites) or other public agency that can be dedicated for affordable housing production. Since 2005, 35% of units in new affordable housing projects have been built on surplus public lands.
- Off-site inclusionary housing sites are provided by private developers as an alternative to building the BMR units on-site in market-rate projects. The off-site inclusionary option has provided land for 8% of units in new affordable housing projects.
- Land dedication from other public, private, and philanthropic sources.

Figure 14: **Affordable Unit Production by Site Acquisition Type**



Based on these past trends, and the expectation that use of public land for affordable housing will continue to be a significant source of affordable housing sites, Planning estimates that public funding will be needed to acquire about half of sites to meet the affordable housing production goals of the HAS. Currently, MOHCD's pipeline of affordable housing development includes sites that can accommodate approximately 6,000 affordable units. These sites are in various stages of development, from planning to pre-construction.

To estimate the cost of site acquisition, Strategic Economics reviewed recent land transactions from Costar Group, a real estate database, as well as City purchases of privately-owned sites for affordable housing development projects. The average cost of land zoned for low and mid-rise development is estimated at $450 per square foot in San Francisco. Assuming that most affordable housing projects built by MOHCD would be in mid-rise buildings with six stories of residential units, and a floor-area-ratio of 4.5, this translates to land costs of approximately $100,000 per unit.

Supportive Housing and Need for Operating Subsidies

In addition to the development costs described in the previous section, affordable units serving extremely low-income or formerly homeless tenants often require additional subsidies to cover ongoing operating costs. This is due to two main factors: (1) the very low rents charged for these units often do not cover operating costs, and (2) models such as Permanent Supportive Housing (PSH), include additional on-site supportive services (e.g. social and mental health services) that increase total operating costs.

Various state and federal programs offer operating subsidies to cover these costs and help remove obstacles to building these units. The main sources available are California's Mental Health Services Act (MHSA), California's Capitalized Operating Subsidy Reserve (COSR), HUD's Continuum of Care, and federal Section 8 vouchers. However, the demand for these sources exceeds existing supply.

To address this challenge, and to further catalyze the production of units serving extremely low-income and formerly homeless households, the City of San Francisco established its own locally-funded operating subsidy in 2006, the Local Operating Subsidy Program (LOSP).[8] LOSP funds % PSH units integrated within 100% affordable LIHTC projects as well as a limited number of units in 100% affordable, PSH buildings. For a given project, the LOSP pays the difference between the cost of operating the PSH units and all other sources of operating revenue. Contracts are structured as 15-year terms and are subject to annual appropriations.

The LOSP, which is currently funded through the City's General Fund, represents a major public investment. In fiscal year 2018-2019, MOHCD's portfolio included approximately 3,000 PSH units, of which 1,160 (40%) were supported with funds from the LOSP. The total LOSP budget in fiscal year 2018-2019 was about $9.2 million, equivalent to $7,900 per unit. Since fiscal year 2007-2008, the LOSP annual budget has, for the most part, increased year over year. The LOSP budget is set to increase in the next few years as additional PSH units are added (projected at $26 million by fiscal year 2023-2024). LOSP is funded from the City's General Fund, representing a growing funding commitment over time. A permanent source of funding for LOSP and PSH in general could help to ensure the program continues over time and relieve pressure on the General Fund.

Preservation of Affordable Housing

This section describes affordable housing preservation trends in San Francisco from 2006 to 2018 and summarizes how funding, financing, and other processes come together to effectively preserve affordable housing.

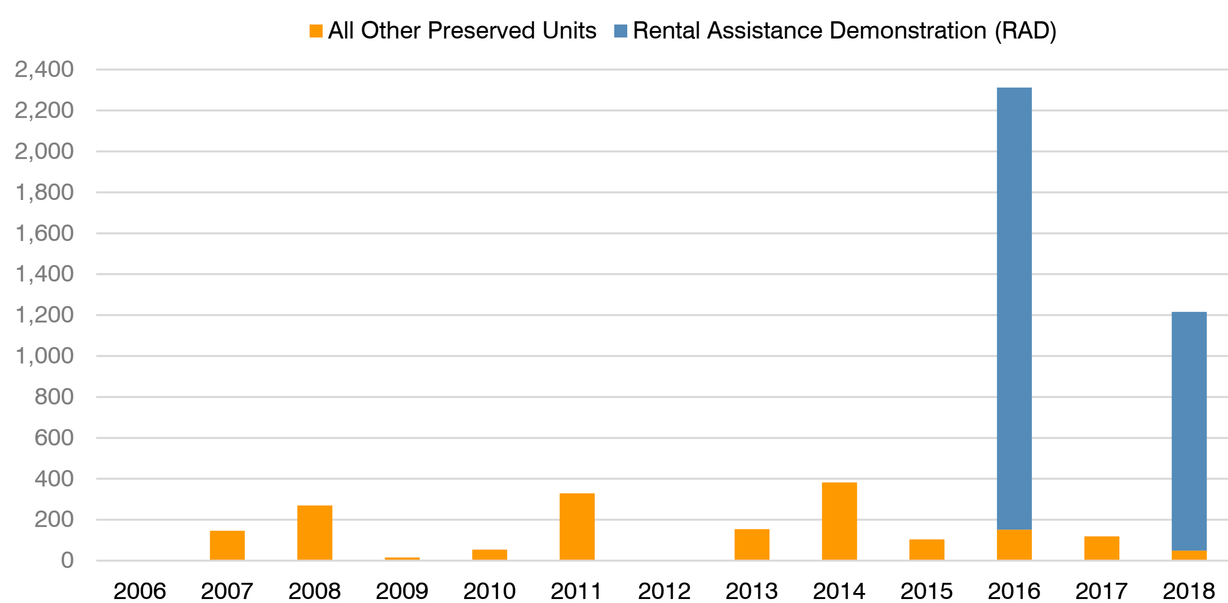
Affordable Housing Preservation Trends

Findings in this section are based on data from the San Francisco Housing Inventory Reports, published annually by the San Francisco Planning Department. There are two major types of preservation projects:

- Rehabilitation and preservation of existing deed-restricted affordable projects. This includes deed-restricted projects in MOHCD's existing portfolio, public housing, and other HUD-assisted housing. The renewal of expiring deed restrictions, rehabilitation, and in some cases rebuilding of these projects, ensures their long-term affordability.
- Acquisition of privately-owned, unsubsidized housing for conversion to permanently affordable housing. This type of unsubsidized housing is often referred to as Preservation Acquisition. Preservation of this kind removes apartment buildings serving lower income renters from the speculative market, maintaining affordability and stabilizing tenants.

Figure 15 summarizes affordable units preserved annually in San Francisco from 2006 to 2018. In total, about 5,100 affordable units have been preserved since 2006, of which about 3,330 are Rental Assistance Demonstration (RAD) units. Excluding RAD, which is a unique, one-time program described in the following section, San Francisco has preserved 140 units on average per year.

Figure 15. San Francisco Annual Affordable Housing Preservation, 2006-2018



Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Preservation of Existing Affordable Housing

The City of San Francisco invests in the preservation and renewal of affordability for existing deed-restricted affordable housing, including:

- **MOHCD portfolio preservation** helps to maintain or rehabilitate existing affordable housing built in prior decades. MOHCD oversees an extensive portfolio of over 25,000 units including buildings it has funded, as well as buildings formerly overseen by the San Francisco Housing Authority and former Redevelopment Agency. Typical preservation costs average around $110,000 per unit.[9]

- **HUD-assisted affordable housing projects** built from the 1960s to the 2000s, some of which have expiring affordability restrictions and substantial rehabilitation needs.

- **Public housing projects** built from the 1940s to the 1970s have mostly been moved to private, mostly nonprofit management (although in most cases, the City still retains the land). Two major programs, HOPE SF and the Rental Assistance Demonstration (RAD) program, have facilitated the rehabilitation and conversion of thousands of public housing units. These are unique preservation models that rely on a combination of federal programs and local funding.

    - **HOPE SF** is a local initiative, following on the federal initiative HOPE VI, to rebuild and rehabilitate San Francisco's public housing. HOPE SF relies heavily on city subsidies but has also leveraged federal tax credits and project-based vouchers. HOPE SF includes four large sites each with multiple buildings: Hunters View, Alice Griffith, Sunnydale-Velasco, and Potrero Terrace/Annex. The Hunters View and Alice Griffith projects were completed in 2017, and the remaining sites will be rebuilt in coming years, without displacing existing residents. Once construction is complete, HOPE SF will have preserved 2,000 units and built 3,000 new market rate and affordable units. Typical rebuilding costs average around $399,235 per unit, higher than average for new construction due to substantial infrastructure investment needed on these sites.[10]

    - **RAD** is a program in which public housing units are rehabilitated, converted to project-based Section 8 voucher units, and turned over to private, non-profit management. RAD relies on federal housing vouchers, private debt, LIHTC equity, and soft debt issued by the City of San Francisco.[11] MOHCD implemented the first phase of RAD in 2015. Since then, approximately 3,330 public housing units have been rehabilitated and preserved through RAD. Rehabilitated RAD developments have been transferred to nonprofit ownership and management while the City typically retains ownership of the land.

Preservation Acquisitions

Preservation acquisition is defined as the conversion of privately-owned, unsubsidized, market-rate housing that is relatively affordable to and currently serving low or moderate-income households into permanently affordable housing. In the face of market speculation, the conversion of this type of housing to permanently affordable housing has become an important affordable housing strategy and community stabilization tool in San Francisco. This type of preservation is complimentary to the production of new affordable housing.

The Small Sites Program (SSP), created in 2014, is San Francisco's preservation acquisition program. The SSP provides permanent financing for converting multifamily rental buildings with 5 to 25 units to permanently affordable housing. The SSP was launched in 2014 as a pilot program and has continued to grow since. While the SSP does not have its own set-aside revenue source, it receives carve-outs from other existing sources (including in-lieu fees, affordable housing bonds, and the Housing Trust Fund). Major trends in preservation acquisition in San Francisco are described below:

As of late 2019, a total of 308 preservation acquisition units (38 buildings) had been acquired using SSP funds.[12] The number of these units preserved per year has gradually increased, as more funding has been made available for the program.

About three quarters of units preserved through SSP serve households earning less than 80% of AMI, including some extremely low-income households. As of June 2019, the average AMI of households served by the program was 58%.[13]

Preservation acquisition units preserved through the SSP have been concentrated in the Tenderloin, the Mission/Bernal Heights, and more recently, the Excelsior. This is due to the existence of well-established and well-organized community organizations that have been able to take on affordable housing preservation. Furthermore, because these neighborhoods are undergoing gentrification and displacement pressures, preservation acquisitions have been a high priority for these communities.

The SSP intends to expand its reach to additional neighborhoods and expand the program to subsidize the conversion of larger preservation acquisition properties as well. For example, the most recent SSP Notice of Funding Availability (NOFA) includes a set-aside amount to expand the reach of the program to underserved neighborhoods in City's westside neighborhoods (i.e. Districts 1, 4, and 7).[14]

San Francisco's Community Opportunity to Purchase Act (COPA) will support the SSP's impact moving forward. Adopted in 2019, San Francisco's new COPA legislation gives qualified non-profit developers the right of first offer, and/or the right of first refusal to acquire certain properties up for sale in San Francisco. Sellers of multifamily properties of three or more units, and of vacant land that could be developed into three or more residential units, must notify the City when seeking to sell their property or parcel.[15] This legislation is intended to make non-profit developers interested in preservation acquisitions more competitive in the face of other market-rate buyers. It is too early to assess the effectiveness of this new law, as it just went into effect in June 2019.

How Funding, Financing, Sites, and Process Come Together: Preservation Acquisitions

This section summarizes the funding, financing, organizational, and policy resources required to successful preservation acquisitions. This section concludes with a brief case study of a recent preservation acquisition project in the Excelsior (4380 Mission Street). Key findings, which are based on SSP-funded preservation acquisition projects from the last five years, are described below and summarized in Figure 16.

- Total development costs. Based on data from 2014 to 2019, total development costs for preservation acquisition projects average around $497,000 per unit.[16] Acquisition represents 85% of total development costs, and rehabilitation accounts for about 15%. However, the average cost per unit varies significantly depending on building size, location, and the amount of rehabilitation work needed.

- Local funding contribution. Even though total development costs for a preservation acquisition project are lower than for new affordable housing construction, the per unit local funding contribution required from the City is higher. As of January 2019, the City of San Francisco's local funding contribution to preservation acquisition projects ranged from $175,000 to $375,000 per unit, with an average of $339,000 per unit, or 80% of total development costs. Given the lack of state and federal resources for preservation acquisitions, the SSP fills an important niche, as it represents the largest, and in some cases the only, public subsidy in the funding stack.

- Role of private loans. Preservation acquisition projects also depend on permanent financing from private banks. These loans are backed by the rental income received from tenants.

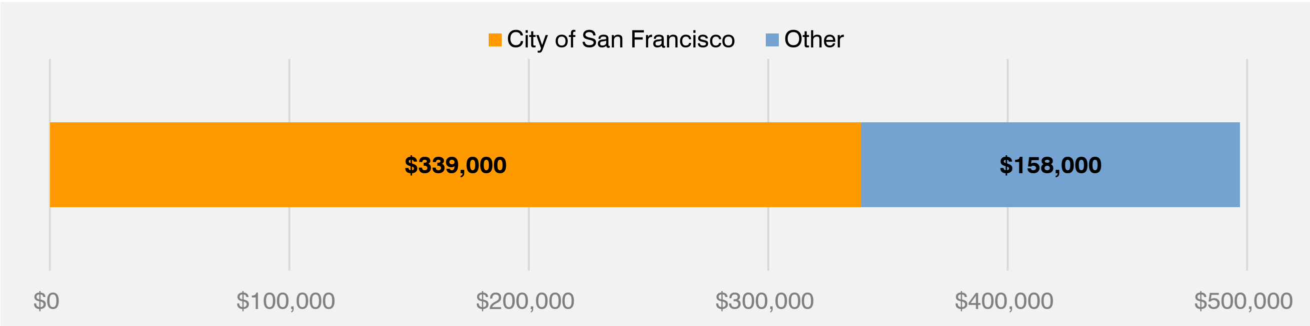
- Predevelopment, acquisition, and/or rehabilitation financing and the role of the San Francisco Housing Accelerator Fund (HAF). In addition to permanent financing, projects also need upfront financing for predevelopment/acquisition, and in some cases, rehabilitation. The HAF emerged in 2017 to address this critical financing gap in the preservation process. The HAF was established as a separate, nonprofit organization so that it could offer more flexible and nimble early stage financing, allowing organizations interested in preservation acquisitions to more successfully compete against market-rate buyers for site acquisition. The HAF works as a financial intermediary in collaboration with the SSP, as projects receiving HAF loans often also receive an informal commitment for permanent financing from the SPP.

- Tenant outreach. Although not accounted for in a project's total development costs, extensive tenant outreach is required for successful preservation acquisitions, given that existing residents must agree to, and/or actively engage in, the conversion process.

- Affordable housing developers with the capacity to take on preservation acquisitions. Preservation acquisition remains a relatively new strategy, and while San Francisco has many community-based organizations that are well-equipped to take it on (e.g. Mission Economic Development Alliance, Tenderloin Development Corporation, Chinatown Community Development Center, San Francisco Community Land Trust, etc.), certain neighborhoods and organizations still lack the capacity to undertake such complex financial deals.

- **Other supportive policies.** In addition to funding and financing, other complimentary policies can help facilitate preservation acquisitions. For example, in 2019, the City of San Francisco adopted the Community Option to Purchase Act (COPA), as described in the previous section.

Figure 16. **City of San Francisco Small Sites Program/Preservation Acquisitions: Average Funding Stack**



Based on data from the Small Sites Program as of January 2019.
"Other" includes primarily permanent loans from private banks, backed against rental income.
Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Example of a Preservation Acquisition Project: 4380 Mission Street, San Francisco

In 2018, the Mission Economic Development Agency (MEDA) partnered with the City of San Francisco and the Housing Accelerator Fund to acquire 4380 Mission Street, an unsubsidized multifamily rental property located in the Excelsior, to convert it to permanently affordable housing. The four-story building has 21 rental units and six ground-floor commercial spaces. Existing tenants, on average, earn a median household income of 73% of AMI, and two thirds earn less than 60% of AMI. The commercial spaces are currently occupied by "mom-and-pop" businesses, including a TV repair shop and nail salon.

The project's funding stack is described below:

- The project's total development cost was about $13,521,000, or $501,000 per unit (assuming 27 units total);
- The Small Sites Program is providing a subsidy of about $200,000 per unit, to cover the need for a source of permanent financing;
- MEDA received a short-term loan from the HAF of $13,250,000 for upfront acquisition and rehabilitation;
- This project also benefitted from extensive tenant outreach conducted by MEDA and the South of Market Community Action Network. These organizations provided Filipino and

Latino tenant community counselors, who were able to effectively communicate with the predominantly Filipino and Latino households residing in the property.

- MEDA is currently exploring the possibility of adding two ADUs in the rear garage, which would also be deed-restricted affordable units.

This was one of the first SSP projects located outside of the Mission/Bernal Heights neighborhood. Encouraging preservation acquisitions across all of San Francisco's neighborhoods has become an important priority for the City, in order to support broader community stabilization and anti-displacement efforts.

Sources: Mission Economic Development Agency (MEDA), "A Big Change: Small Sites Program Used by MEDA to Convert 4830 Mission St. into Affordable Housing", July 2018, available at: https://medasf.org/a-big-change-small-sites-program-used-by-meda-to-convert-4830-mission-st-into-affordable-housing/; and San Francisco Housing Accelerator Fund, "Press Release: San Francisco Housing Accelerator Fund Helps Preserve 4830 Mission Street And 654 Capp Street", July 26, 2018, available at: https://static1.squarespace.com/static/585458b3d482e91d10cc3613/t/5b5a1007758d467e673bd3cc/1532628999380/Copy+of+6.18+Capp+Street%252FMission+St++Press+Release++%281%29.pdf

Figure 18. **Example of a Preservation Acquisition Project in San Francisco (4380 Mission Street)**

Source: MEDA, July 2018. Available at: https://medasf.org/a-big-change-small-sites-program-used-by-meda-to-convert-4830-mission-st-into-affordable-housing/

Projected Affordable Housing Funding Need

This chapter summarizes the HAS affordable housing targets and the corresponding local funding needed to meet these targets. This total funding need is then compared to MOHCD's projected future available revenue through fiscal year 2029-2030.

Local Funding Needed to Meet HAS Affordable Housing Targets

San Francisco's target for new housing production is 5,000 new units annually, of which at least one third would be deed-restricted affordable. This target is equivalent to producing 1,667 units new deed-restricted affordable units per year. This includes affordable units already in the OCII pipeline, BMR units produced through San Francisco's Inclusionary Housing Program, and new MOHCD deed-restricted 100% affordable housing projects. Figure 17 and Figure 18 summarize these citywide production targets.

San Francisco's target for affordable housing preservation is 1,075 units annually. In addition to affordable housing production, the City has also set a preservation goal, which includes the preservation of existing MOHCD portfolio deed-restricted affordable units, affordable units within large projects such as Treasure Island and HOPE SF sites, and preservation acquisition properties. Figure 19 summarizes these citywide preservation targets.

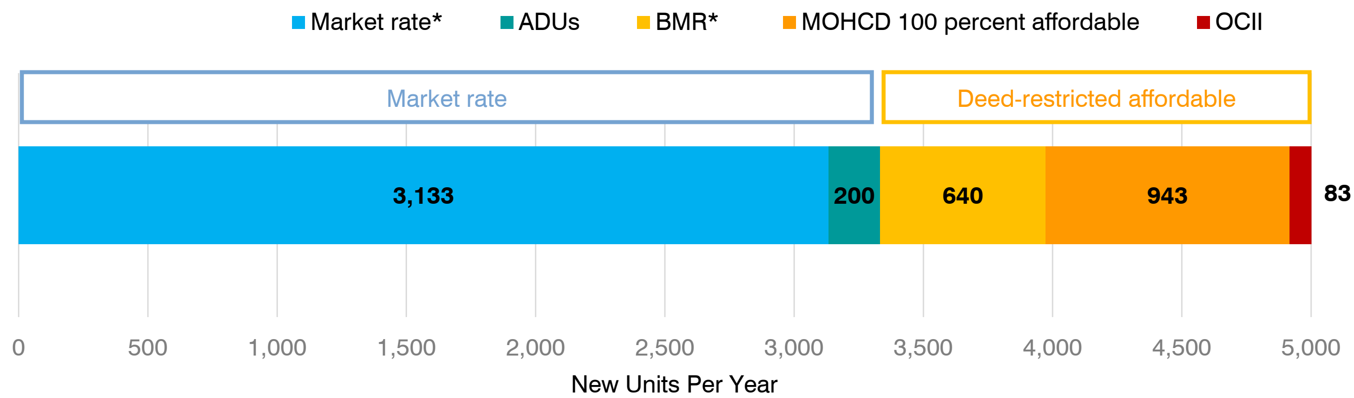
To meet these affordable housing production and preservation targets, San Francisco will require a local funding contribution of about $517 million annually in 2020 dollars. Of this total local funding need, about 56% is to produce new deed-restricted housing, including site acquisition, and about 44% is for preservation. Figure 20 summarizes the typical local funding contribution for each housing type. Note that local funding estimates for new affordable units and preservation acquisitions are based on findings presented in Chapters 3 and 4 of this report, and cost estimates for the preservation of existing deed-restricted units and large projects are based on estimates provided by MOHCD.

Figure 17. San Francisco HAS Affordable Housing Production Target, Annual Average

	HAS Target Units Per Year	*% of Total Production Target*
Market Rate Production		
Market rate*	3,133	63%
ADUs	200	4%
Subtotal	**3,333**	**67%**
Deed-Restricted Affordable Production		
Inclusionary BMR*	640	13%
OCII**	83	2%
MOHCD-Funded 100% Affordable	943	19%
Subtotal	**1,667**	**33%**
Total Units	**5,000**	**100%**

*Includes units in San Francisco's large projects/plan areas.
**Refers to affordable units that are already included in OCII's development pipeline, and therefore do not require MOHCD funding.
Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Figure 18. San Francisco HAS Affordable Housing Production Target, Annual Average



*Includes units in San Francisco's large projects/plan areas.
**Refers to affordable units that are already included in OCII's development pipeline, and therefore do not require MOHCD funding.
Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Figure 19. San Francisco HAS Affordable Housing Preservation Target, Annual Average

	Target Units Per Year
Large Projects (Hope SF, Treasure Island)	61
Preservation of Existing Affordable Units	614
Preservation Acquisitions	400
Total Units	**1,075**

Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Figure 20. Summary of Local Funding Needed to Meet HAS Affordable Housing Targets

	Target Units Per Year	*MOHCD Cost Per Unit**	*Total Annual Local Funding Need**	*% of Total Funding Need*
Affordable Housing Production				
MOHCD-Funded 100% Affordable	943	$257,000	$242,437,000	47%
Land acquisition costs	472	$100,000	$47,200,000	9%
Affordable Housing Preservation				
Large Projects (Hope SF, Treasure Island)	61	$399,000	$24,340,000	5%
Preservation of Existing Affordable Units	614	$110,000	$67,580,000	13%
Preservation Acquisitions	400	$339,000	$135,600,000	26%
Subtotal Preservation			**$227,520,000**	**44%**
Total			**$517,157,000**	**100%**

* Rounded to the nearest thousandth.
Source: City of San Francisco Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

Projected Revenue Compared to Local Funding Need

Figures 21 and 22 summarize identified affordable housing revenue sources projected for fiscal year 2019-2020 through 2029-2030 and compare projected revenues to the total amount of local funding needed to meet the HAS targets. Funding sources are organized in the following categories:

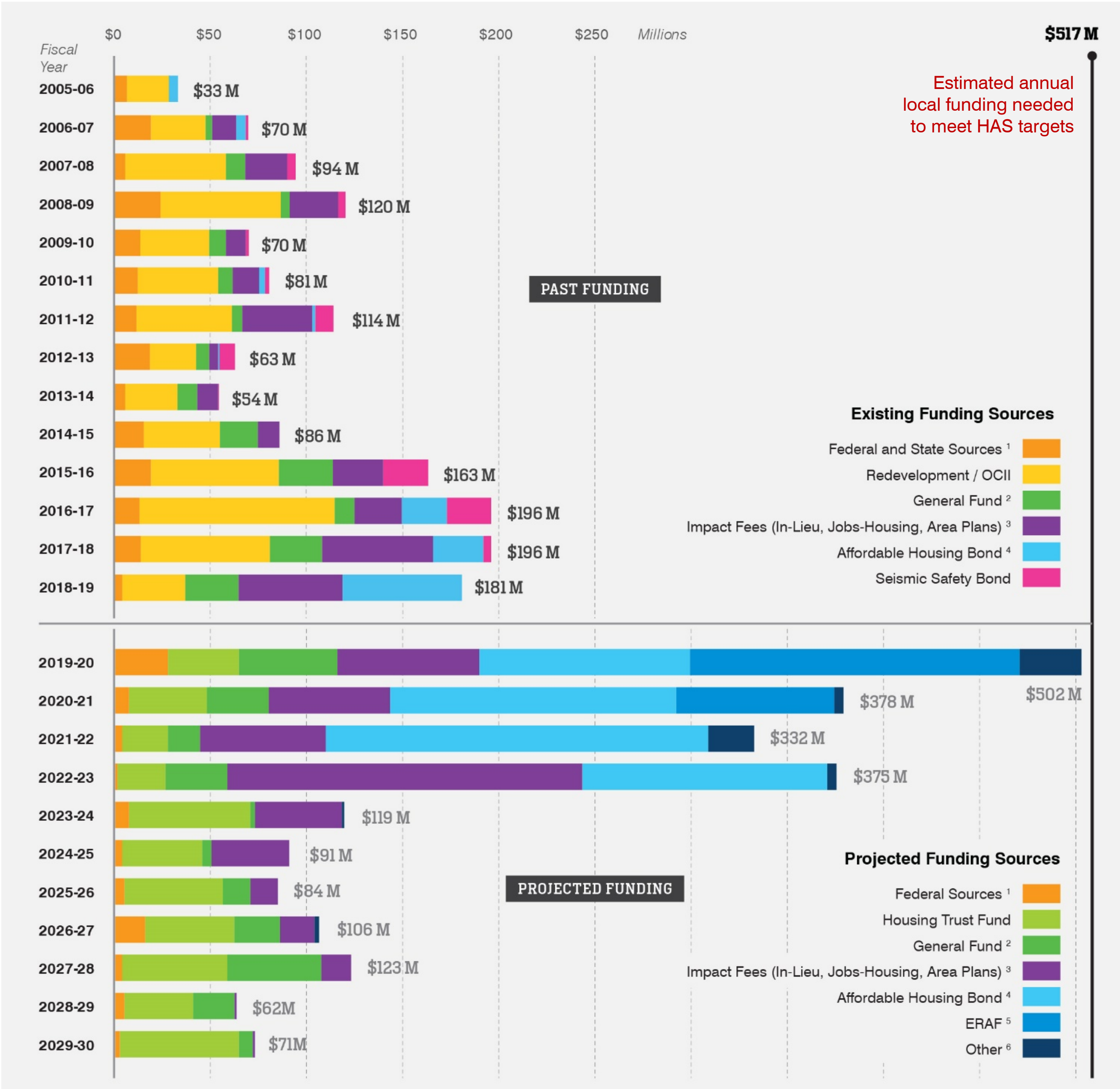
- Affordable housing bonds, including the 2015 and 2019 voter-approved bonds;
- San Francisco's Housing Trust Fund;
- Development impact fees, including the Inclusionary Housing Program in-lieu fees, the jobs-housing fees, and area plan housing fees;
- General Fund revenue, including land sales and Certificates of Participation (COPs);
- Educational Revenue Augmentation Fund (ERAF), which consists primarily of a windfall allocation in 2019 and 2020;
- Other federal sources, including CDBG and HOME.

Projected annual revenues from 2019 to 2023 are high, ranging from $300 to $500 million annually. These projections are considerably higher than MOHCD's average affordable housing expenditures from the last few years, which averaged $200 million in 2017 and 2018 (see Figure 3). In 2019 and 2020, major revenues are expected from one-time ERAF allocations; in 2022, MOHCD anticipates a large contribution from development impact fees; and from 2019 to 2023, the affordable housing bonds are expected to contribute at least $100 million per year.

After 2023, revenues are projected to drop to less than $150 million annually. With the affordable housing bond revenue spent, no major funding sources are projected after 2023. Revenues identified after 2023 consist mainly of the Housing Trust Fund, the General Fund, and development impact fees.

Projected revenues will come close to meeting the target local funding need in the short term, but within a few years, a large funding gap is anticipated. As explained in the previous section, the HAS affordable housing targets translate to a local funding need of $517 million annually. As seen in Figure 21, this could be nearly met in fiscal year 2019-2020, but in all other years, there is a gap ranging from $150 million to over $300 million annually.

Figure 21. Projected Affordable Housing Funding, FY 2019-2020 to FY 2029-2030



Note: Expenditures are shown by fiscal year and include funding for production and preservation of affordable housing.
(1) Includes HOME and CDBG
(2) Includes area-specific fees, inclusionary housing fees, and jobs-housing linkage fees
(3) Includes land sales and Certificates of Participation (COPs)
(4) In 2019, the Board of Supervisors passed an ordinance to establish the use of excess Education Revenue Augmentation Fund (ERAF) revenue for affordable housing production and preservation.
(5) Includes 2015 Proposition A and 2019 Proposition A housing bonds
(6) Includes Citywide Development Agreements, Condominium Conversions fees, Low- and Moderate-Income Housing Asset Fund (LMIHAF), and other project-specific revenue)
Source: City of San Francisco Mayor's Office of Housing and Community Development, City of San Francisco Planning Department, and Strategic Economics, 2020.

Figure 22. **Projected Affordable Housing Funding, FY 2019-2020 to FY 2029-2030**

	Total Revenue, FY 2019-20 to FY 2029-30	*Annual Average, FY 2019-20 to FY 2029-30*	*Annual Average Needed to Meet HAS Targets*
Housing Trust Fund	$484,400,000	$44,036,000	-
Federal Sources (1)	$78,864,000	$7,169,000	-
Area Fees and Impact Fees (2)	$522,360,000	$47,487,000	-
General Fund (3)	$252,685,000	$22,971,000	-
ERAF (4)	$253,043,000	$23,004,000	-
Housing Bonds (5)	$584,251,000	$53,114,000	-
Other (6)	$67,776,000	$6,161,000	-
All Sources	**$2,243,379,000**	**$203,942,000**	**$517,157,000**

See notes from Figure 23.
Source: City of San Francisco Mayor's Office of Housing and Community Development, City of San Francisco Planning Department, and Strategic Economics, 2020.

Closing the Funding Gap: Potential Additional Funding Sources

The previous section summarized the gap between the amount of local funding needed to meet the HAS affordable housing targets, and the City's projected affordable housing revenues through 2030. This section looks at how San Francisco could raise needed funding in future and also discusses potential impacts from federal and state programs.

Potential Impacts of Federal and State Affordable Housing Funding Programs

Increased federal and state funding could help close the local funding gap as well as address funding needs around the region. Increased federal and state level funding is likely the only way that growing affordable housing needs around the nation will be addressed.17 While San Francisco has struggled to provide sufficient funding for affordable housing and there are barriers to raising funds (explored more below), many other cities face affordability challenges and have far fewer resources or more political resistance to investing in affordable housing making federal and state funding all the more crucial.

Key Federal Funding Needs and Challenges

Housing affordability initiatives in San Francisco would be greatly helped by expanded federal affordable housing investment. The Federal Government has greater ability to provide consistent housing assistance and investment regardless of economic downturns because it can run a deficit and borrow to cover spending while cities, counties, and states must maintain balanced budgets and are limited to bond debt that voters approve. Key federal policies that could help address local affordability include:

- Rental Assistance: Expanded rent assistance through Housing Choice Vouchers would ensure that more very low income households could afford a home without spending most of their income on rent as is often the case today. Severe cost burden (paying more than 50% of income in rent) among very low- and extremely low-income households is widespread nationwide and rental assistance would help address this problem while allowing affordable housing providers to produce or preserve housing knowing that low income renters have the financial support to afford rent that covers housing development and maintenance costs.

- LIHTC: Expanded Low Income Housing Tax Credits (LIHTC) would provide additional equity to fund affordable housing nationwide. In areas like San Francisco, where housing is scarce, more LIHTC would allow more affordable housing to be brought online more rapidly.

- Other Capital Funding Sources: While LIHTC incentivizes private investment in affordable housing in exchange for tax credits, other capital sources such as HOME offer capital funding for affordable housing that do not depend on a private investor. Expansion of Federal capital funding would help produce more affordable housing nationwide.

- Renter's Tax Credit: An expanded federal renter’s tax credit could help cost-burdened low and moderate income renters. Renters are typically much lower income than homeowners yet homeowners often receive greater federal housing benefits such as the mortgage interest deduction.

- Homelessness Services and Permanent Supportive Housing: People experiencing homelessness often have intensive housing and services needs. California has a disproportionate share of the nation’s homeless population, in part because of high housing costs. Yet homelessness is also a nationwide problem. Greater federal investment in services for people experiencing homelessness and supportive housing could help cities like San Francisco rise to the challenge.

- Tax Exempt Bonds: Federal funding can make a growing difference in the success of local affordable housing initiatives, especially in the case of LIHTC and tax-exempt bonds. The majority of affordable housing projects are financed with 4% tax credits, which are required to be paired with tax-exempt bonds. However, this year, tax-exempt bonds allocated for multifamily housing are nearly three times oversubscribed and have become competitive in California. Federal tax code limits the amount of tax-exempt bond debt that may be issued by the State based on a population formula, referred to as volume cap. In previous years, the State had unused volume cap that carried over to the following year. However, as carryover funds have been spent down and cities have grown their production pipeline, volume cap has not expanded. Unless the federal government expands or lifts volume cap for affordable housing, many projects that have committed local or State funds will not be able to access 4% tax credit and tax-exempt bond financing to move forward.

Potential for State Funding

As mentioned earlier, the state of California has recently expanded affordable housing funding through a voter approved bond and recent state funding allocations. The state faces some of the same funding constraints as cities and counties like San Francisco, such as a requirement to maintain balanced budgets, even in economic downturns, and requirements that additional debt or taxes be approved by voters.

Even with these constraints, the state can continue to expand affordable housing and homelessness funding to address statewide needs by placing bonds or other funding measures on the ballot for voter approval and making allocations from the state’s general fund revenues when the budget is strong. The state currently offers the welfare tax exemption available to religious, educational, and other nonprofit institutions to affordable housing developments that are nonprofit operated and serve households earning 80% of AMI or less. This tax exemption could be expanded to serve moderate income households up to 120% of AMI as well to provide a subsidy source for moderate income housing development. Proposals to reform Proposition 13, such as through a “split roll” where residential and commercial property value would be assessed differently, could also help to provide more funding for affordable housing. Changes to state law could also enable more low funding tools such as local income taxes or property tax abatements (See more in the local funding section below on new funding sources that require changes to state law).

San Francisco’s Existing and Potential Affordable Housing Funding Sources

Based on analysis of how San Francisco has funded affordable housing over time and based on a review of other high cost cities’ approaches to funding affordable housing (including Seattle, Los Angeles, Vancouver, and New York), this chapter presents possible funding sources that could help fill the local funding gap for affordable housing in the future. As shown in Figure 23, this review includes:

- Funding sources that San Francisco currently utilizes, but that could be expanded or leveraged differently;
- Funding sources that are currently pending in San Francisco;
- New funding sources utilized in other cities that are implementable under existing California law.
- Funding sources that are utilized in other cities but cannot be implemented under the existing legal framework in California.

Figure 23. **Potential Affordable Housing Funding Sources for San Francisco**

Expanding existing sources	Pending sources	Potential new sources other cities are using that are implementable in California	Sources that are not implementable under current California law
• General fund revenues • General housing obligation bonds • Fees	• Gross receipts tax	• Dedicated affordable housing revenue from property transfer tax revenue • Vacant or underutilized home tax • Regional housing bond • City-owned public bank	• Local income tax • Property tax exemption

Potential Expansion of Existing Funding Sources

Allocation from general fund revenues. San Francisco and many other high cost cities draw from the general fund to meet the need for affordable housing funding. San Francisco’s general fund is funded by various taxes including property taxes, gross receipts and payroll taxes, hotel room taxes, transfer taxes, and other revenue sources. Funds such as ERAF that are returned by the state to the City can also continue to be dedicated to affordable housing.

San Francisco has recently generated significant housing revenues from general obligation housing bonds. San Francisco's affordable housing bonds are funded by property taxes. In the past five years, voters have passed two such bonds – Proposition A (2015), which raised $310 million for affordable housing, and Proposition A (2019), which raises another $600 million. Prior to these, however, the voters had not approved any affordable housing bonds since 1996.

In comparison, Seattle voters have passed a housing levy every seven years since 1986, with the most recent levy approved by voters in 2016. The Seattle Housing Levy increases property taxes for a set number of years for the purpose of funding affordable housing. The Levy lifts the limit on regular property taxes and authorizes the City of Seattle to levy additional taxes for low-income housing. The 2009 Housing Levy raised $145 million through its course, and the most recent iteration, the 2016 Housing Levy, raised $290 million – with a cap of $41 million that can be raised annually during the course of the Levy.[18]

A notable feature of the recent Housing Levies is the Acquisition and Opportunity (A&O) Program, which reserves a pool of money for strategic site acquisition for affordable housing and is designed specifically as a strategy to respond to economic downturns. A&O funding is prioritized for projects that take advantage of favorable market conditions with a low acquisition cost.

While San Francisco's recent housing bonds are significantly larger than any of Seattle's Housing Levies, they have a lower cost per assessed value. Prop A (2019), the City's most recent housing bond, has an estimated average tax rate of $11.72 per $100,000 of assessed value, significantly lower than the $25 per $100,000 of assessed value for the 2016 Seattle Housing Levy.[19]

San Francisco could explore raising additional revenue from bonds, however, California's Proposition 13 does present a significant barrier to generating more funding from property taxes. Prop 13 limits increases in the assessed value of properties to no more than 2% per year, regardless of actual changes in property value, until a sale of a property triggers a reassessment. Proposition 13 also sets a base property tax rate at 1% of assessed value, plus bonded indebtedness and direct assessments, and requires a voter approval threshold of a two-thirds supermajority to raise special property taxes, or taxes intended for a specific use such as housing. The impact of Prop 13 is that many properties in San Francisco are taxed well below their current value, limiting the amount of revenue that is generated. Not only does Prop 13 limit the ability to generate significant revenue from property taxes, it also makes it more difficult to dedicate collected revenues towards affordable housing.

Fees paid by private developers are used by many cities to generate more funding for affordable housing. San Francisco's in-lieu and impact fees are generally implemented at the citywide level though a few areas including parts of the Mission, Tenderloin, and SoMa have higher inclusionary requirements and higher fees. While the Board of Supervisors have the authority to change the rates of the City's inclusionary housing program and other impact fees, implementing them based on market strength as Seattle and Los Angeles have done could mean decreasing fee rates in some parts of the city.

In-lieu fees. Seattle recently adopted the Mandatory Housing Affordability (MHA) Program, an inclusionary zoning program that pairs an increase in development capacity in select areas in exchange of affordable housing requirements. MHA requires eligible residential and commercial developments to provide a certain number of affordable housing units, ranging from five to eleven%, or pay an in-lieu fee to support the creation of affordable housing in the range of $5.58 to $35.75 per ft2. These rates depend on the intensity of the zoning change as well as the market strength in an area. Therefore, parcels in the city that had the highest level of rezoning located in the strongest market have the highest affordability and fee requirements.[20]

Impact fees. Los Angeles' recently implemented Affordable Housing Linkage Fee is projected to generate between $90 to $130 million annually towards the development of affordable housing. Like Seattle, LA's Fee regime breaks down the city into four separate housing markets based on financial feasibility analysis and allocates varying fees ($1 to $18 per ft2) depending on market strength and the type of development.[21]

Pending Funding Sources

Gross Receipts Tax. With the passage of Proposition E in 2012, San Francisco transitioned taxes on larger businesses in the city from a payroll tax to a tax on the gross receipts. This change brought San Francisco in line with other cities in California and increased the City's General Fund revenues. Part of the City's Affordable Housing Trust Fund, approved by voters the same year, is funded from the General Fund. In 2018, voters approved Proposition C, which raises the gross receipts tax rate on the largest businesses in the City to fund housing and homeless services Under Prop C, businesses with gross receipts over $50 million will have tax rates ranging from 0.175% to 0.69%, or a 1.5% tax on payroll expenses for certain businesses with over $1 billion in gross receipts, administrative offices in San Francisco, and over 1,000 employees nationwide.[22] Prop C would affect about 300 to 400 businesses, or about 3% of all businesses in San Francisco.[23]

However, while Prop C passed, it immediately faced a lawsuit arguing it required a two-thirds supermajority, as opposed to a simple majority, since the tax is for a specific purpose. A court ruled that a simple majority was sufficient to approve the measure since it was put on the ballot through a citizen initiative. However, this decision was appealed, putting the measure in legal limbo. Should the appeal be denied, Prop C has the potential to generate between $250 to $300 million annually.[24] The City has been collecting revenue from Prop C but has not spent any of the funds due to the legal challenge. In FY 2018, San Francisco collected over $682 million in total gross receipts taxes and over $189 million in overall payroll taxes.[25]

Potential Funding Sources Used in Other Cities

Dedicated affordable housing revenue from property transfer tax revenue. Property transfer taxes are assessed when a property is sold, offering a direct way to generate revenue from rising housing prices and property values. As a charter city, San Francisco has the authority to set its own property transfer tax rates, which can be adjusted through a ballot initiative. For this reason, the City has a tiered and progressive transfer tax regime. In recent years, San Francisco has increased transfer tax rates significantly at the higher end of the market, with Prop N (2008) creating a tax tier for homes sold above $5 million and Prop N (2010) creating another tax tier for homes sold above $10 million. The City's transfer tax rates were most recently amended in 2016 when voters approved Proposition W, which increased the transfer tax rate for properties with a sale price of $5 million or more and created an additional tier for homes with a sale price of at least $25 million.[26] Because revenues from the Prop W transfer tax increase were intended for the City's General Fund, the proposition only required a simple majority to pass.

In comparison, Washington DC allocates 15% of transfer tax revenue to its Housing Production Trust Fund, which provides funding for affordable housing production and acquisition. Transfer tax revenues comprise a majority of the Trust Fund, contributing $61 million to the Trust Fund in 2018.[27]

The scale of transfer tax revenues in San Francisco has increased significantly in recent years, as the real estate market has strengthened, and property values increased. During the 2018 fiscal year, San Francisco collected $368 million in transfer taxes, more than a seven-fold increase since 2008. While the San Francisco Board of Supervisors could earmark a share of transfer tax revenues towards affordable housing, this would require finding an alternative funding source for the programs and services that the transfer tax currently funds. And, to consider an increase in transfer taxes specifically for the purpose of funding affordable housing, voters would have to approve this by a two-thirds supermajority ballot measure.

Tax on empty and under-utilized residential properties. Vancouver levies an Empty Homes Tax (EHT), a 1% tax on the assessed value of empty and under-utilized residential properties and collected revenue is dedicated towards Vancouver's affordable housing initiatives. The tax applies to properties that do not serve as a primary residence or are not rented out for a least six months out of the year. The tax generated $38 million in revenues in 2017, increasing to $39.4 million in 2018 despite a decrease in vacant properties. Between 2017 and 2018, the number of vacant homes decreased by 28% from 2,538 to 1,989.[28] Results from the first years of EHT's implementation points towards its success in returning housing units to the rental market while also generating funding for affordable housing.

In 2018, 8.7% or about 34,000 units of San Francisco's 393,975 housing units were vacant.[29] A healthy vacancy rate for a typical housing market is estimated to be between 5-8%, which can be due to various reasons such as tenant turnover, the lease up or buying process, or capital improvements.[30] However, San Francisco's housing landscape is far from typical and a 8% vacancy rate is high for a very tight housing market. For example, assuming only vacant units above the typical vacancy rate were returned to the market, this could free up between 2,758 to 14,577 units – a significant amount given the current housing need.

To implement a tax on vacant properties in San Francisco, voters would have to approve a ballot measure with a two-thirds supermajority, as mandated by Proposition 13. However, Proposition 13 also presents uncertainties on whether a vacancy tax in the City could yield results of a similar magnitude as Vancouver. Proposition 13 caps property taxes to 1% of a property's assessed value plus bonded indebtedness and direct assessments. As the property tax rate in San Francisco is already 1%, an ad valorem vacancy tax could not be implemented. Instead, San Francisco could implement a parcel tax on vacant properties similar to Measure W passed by Oakland voters in 2018. Further analysis of San Francisco's housing stock would be required to better determine the potential impacts of a vacancy tax.

Regional housing bond. Portland's regional government, Metro, presented a ballot measure for a regional $652.8 million housing bond, which voters from the three-county metropolitan area approved in 2018.23 Metro set a goal of producing at least 3,900 affordable homes, with approximately 1,600 homes for households earning at or below 30% of the area median income.[31]

In October 2019, the State Assembly passed AB 1487, which establishes the Bay Area Housing Finance Authority (BAHFA) to raise, administer, and allocate funding for affordable housing in the Bay Area. With BAHFA, the Bay Area will have a regional housing agency that can raise revenue from a regional bond, parcel tax, gross receipts tax, special business tax, or a commercial linkage fee. As this revenue will be dedicated towards affordable housing, these funding mechanisms are classified as special taxes and therefore subject to a supermajority approval threshold set forth by Proposition 13. There is currently an effort to put a $10 billion regional affordable housing bond measure on the ballot for November 2020. Should this be approved, San Francisco would receive a significant amount of funding.

City-owned public bank to provide low-cost financing. The establishment of a City-owned public bank can provide increased low-cost financing for affordable housing. A study by the San Francisco Treasurer's Office identifies a reinvestment model as one of the possible structures of a San Francisco Public Bank, which would focus on lending and reinvestment in areas that are underserved by traditional banking, including affordable housing. The Treasurer's Office found that $1 billion in loans from this model could result in an additional $200 million in financing for affordable housing annually. It is important to note that while low-cost financing from a public bank still counts as debt, the increased availability of financing would still help fill the increasing demand from affordable housing.

The establishment of municipally owned public banks was legalized in California by the Public Banking Act, or AB 857, which took effect in the beginning of 2020. However, establishing a public bank is a long process, which could take 3 to 5 years, or more.

New Funding Sources that Require Changes to State Law

Local income tax. New York City levies a personal income tax on residents and workers in the five boroughs, with the tax rate ranging from 3.078% to 3.876% on taxable New York City income. This local income tax comprises a significant portion of the city's General Fund revenue. In 2018, $13.4 billion or roughly 22.7% of New York City's total tax revenues were generated from the local income tax.[32]

However, the California Revenue and Tax Code prohibits any local jurisdiction from levying an income tax on residents or nonresidents, and also prohibits implementing local capital gains tax.33 This statute prohibits San Francisco from implementing a local income tax similar to that of New York City. Such a legal framework is also required in order for the City to levy other taxes such as a local capital gains tax, which is typically imputed into income taxes. A local tax on capital gains taxes wealth, which can be particularly appealing for San Francisco due to widening wealth inequality, part of which stems from rapidly increasing property values.

Property tax exemption to incentivize affordable housing development. With a property tax exemption program, tax payments on residential improvements are deferred until after the course of the exemption ends.

Seattle's Multifamily Tax Exemption Program (MFTE) provides a property tax exemption of up to twelve years for developments that set aside a portion of total housing units as affordable housing. The current MFTE program applies to all areas zoned for multifamily housing and grants property tax exemptions for developments that set aside between 20 to 25% of units as rent- and income-restricted affordable housing units. As of 2018, current iteration has approved 1,891 affordable units, all of which has been rental and 56% of which are geared for households at 75% of AMI. The previous version, which ran from 2011 to 2015, approved a total of 3,059 affordable units. Of these units, 3,050 were rental housing, with 47% of units serving households at 75% AMI and 40% of units at 65% AMI.[34]

New York City's equivalent program, the 421-a Exemption, provides property tax exemptions to new multifamily development projects. The latest iteration of the 421-a program, the Affordable New York Housing (ANYH) Program, was implemented in 2017 and provides up to 35 years of property tax exemptions in exchange of providing 25-30% of housing units as affordable housing for households between 40% to 130% AMI.

The current structure of California's Tax Code prevents San Francisco from implementing similar property tax exemptions as Seattle and New York City. The Property Tax Welfare Exemption limits tax exemptions to properties dedicated to hospital, religious, and charitable uses, including non-profit managed affordable housing.[35] Therefore, for-profit developments are prohibited from qualifying for property tax exemptions. A full exemption from property tax needs to be authorized by the California Constitution, which would require a constitutional amendment. The City and County of San Francisco may be able to refund the portion of property tax that it receives (but not the portion that must go to the State or other taxing entities) on properties that provide affordable housing, however, this policy would reduce City revenue and may have legal barriers and would need further financial and legal analysis.

Appendix:
Affordable Housing Production and Preservation Data

San Francisco Annual Housing Production, 2006-2018

		Non-Deed Restricted		*Deed-Restricted Affordable Units by Type*			*Deed-Restricted Affordable Units by Affordability Level*			
	Total Net New Units	Market-Rate Units	ADUs	Inclusionary Units	100% Affordable or Other	Total Affordable Units	<30% AMI	31-50% AMI	51-80% AMI	81-120% AMI
2006	1,914	1,423	37	189	265	454	260	56	17	121
2007	2,567	1,832	51	167	517	684	0	412	120	152
2008	3,263	2,440	59	379	385	764	134	247	81	302
2009	3,454	2,508	70	44	832	876	0	550	140	186
2010	1,230	648	34	40	508	548	0	480	21	47
2011	269	51	46	11	161	172	0	140	21	11
2012	1,317	804	36	125	352	477	250	107	52	68
2013	1,960	1,248	44	220	448	668	0	448	220	0
2014	3,514	2,757	59	267	431	698	0	149	477	72
2015	2,954	2,425	53	286	190	476	0	213	66	197
2016	5,046	4,244	65	449	288	737	120	128	364	125
2017	4,441	2,975	99	421	946	1,367	0	686	558	123
2018	2,579	1,934	141	163	341	504	0	40	401	63
Total	**34,508**	**25,289**	**794**	**2,761**	**5,664**	**8,425**	**764**	**3,656**	**2,538**	**1,467**
Average	**2,654**	**1,945**	**61**	**212**	**436**	**648**	**59**	**281**	**195**	**113**

Source: City of San Francisco Housing Inventory Reports, 2006 to 2018.

San Francisco Annual Affordable Housing Preservation, 2006-2018

	Units Acquired/ Rehabilitated	*Rental Assistance Demonstration (RAD) Units*
2006	0	0
2007	146	0
2008	270	0
2009	16	0
2010	54	0
2011	329	0
2012	0	0
2013	154	0
2014	382	0
2015	104	0
2016	152	2,160
2017	119	0
2018	49	1,167
Total	**1,775**	**3,327**
Average	**137**	**256**

Source: City of San Francisco Housing Inventory Reports, 2006 to 2018.

Endnotes

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3 Voters passed Propositions A in 2015 that authorized general obligation affordable housing bonds. Another Proposition A was passed in 2019 authorizing additional affordable housing bonds. Proposition C, passed by voters in 2016, authorized the repurposing of previously unused bond capacity for the Preservation and Seismic Safety Program, or PASS.

4 City of San Francisco Planning Department, "Community Stabilization Policy and Program Inventory", October 2019, available at: https://commissions.sfplanning.org/cpcpackets/2017-000565CWP_101719.pdf

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6 Annual expenditures does not neatly align with annual units produced or preserved because: (1) permitting, financing, constructing, and certifying housing for occupancy may not occur in the same year funding was provided; (2) MOHCD may fund an affordable development over several years including site acquisition, predevelopment work, and construction; (3) the expenditure data is expressed by fiscal year, whereas the production/preservation data is presented by calendar year.

7 Note that projects that received 9 % tax credits in recent years were excluded from the sample because they were mostly HOPE SF projects (i.e. Sunnydale Parcel Q, Alice Griffith Phase 3B and Phase 4, and Hunters View Block 10). Furthermore, San Francisco is only allocated a limited amount of 9 % tax credits per year (the City receives its own 9 % set-aside that is allocated annually), so generally speaking, MOHCD needs to rely more heavily on 4 % tax credits.

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