



To: Members of the Balboa Reservoir Community Advisory Committee

From: Emily Lesk, Office of Economic and Workforce Development

Date: February 3, 2016

**Subject: Revised Housing Parameters: Version 3**

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At the CAC meeting scheduled for September 14, 2015, City staff proposed development parameters related to housing at Balboa Reservoir. In conjunction with the October 19, 2015 CAC meeting, staff revised these parameters (**revisions in red**). Staff has now revised the Housing Parameters again to reflect additional comments received during the October 19, 2015 CAC meeting; during public comment periods at subsequent CAC meetings; and in written feedback received after October 19th (**revisions in blue**). Staff expects to hear additional feedback on these revised parameters at the upcoming CAC meeting scheduled for February 8, 2015, and is prepared to make additional revisions as appropriate.

The most recent round of revisions to the Housing Parameters appear in blue text below and include:

- Clarifying that affordable housing must remain affordable in perpetuity.
- Emphasizing the importance of exceeding the baseline affordable housing goals and the expectation that the developer will apply creative solutions to this challenge.
- Emphasizing the importance of finding creative ways to target special populations such as public servants and veterans.
- Removing language around maximizing the project's pace.

Staff did not, however, incorporate all suggested changes. In particular, staff notes that over the course of the three BRCAC meetings at which the Housing Parameters were discussed, the feedback from the community has varied widely with regard to the desired percentages and income levels of the affordable housing. While some commenters expressed a desire for higher percentages of affordable housing, others wanted to effectively reduce the percentages currently proposed by converting them from minimums to maximums. Some commenters wanted to maximize the proportion of affordable housing for very low and low-income households, while others wanted to maximize the proportion of below-market-rate housing a wider range of moderate and middle-income households. At the most recent meeting, the Council of Community Housing Organizations (CCHO) submitted a written comment memorandum proposing study of a number of affordability approaches with different mixes of income levels, noting that the approaches of 100% below-market-rate housing would require outside subsidy while other profiles could be financed by cross-subsidization from market rate housing.

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Staff has considered the various comments and arguments and proposes retaining the approach set forth in prior versions of the Housing Parameters. As acknowledged in the CCHO white paper, each low income unit would be expected to require approximately \$300,000 of City subsidy before it could be built (\$250,000 for the unit itself and an allowance of \$50,000 for its share of the needed project infrastructure). If this subsidy was applied to a hypothetical 500-unit development (the unit count outlined in the Balboa Park Station Area Plan) it would require approximately \$150 million in City subsidy. And, as described at the BRCAC's past meetings on affordable housing, this subsidy amount is actually greater per unit for the moderate and middle income families that are also in need during this housing affordability crisis, due to the lack of federal and state subsidies, which currently target only low income households. This per-unit subsidy dynamic would pit the Balboa Reservoir project against other, smaller projects around the City seeking those finite subsidy dollars, and would severely constrain the funding available for other public benefits sought by the Balboa Reservoir community.

On the other hand, the proposed mixed-income approach seeks to leverage private capital to fund the affordable housing as well as community amenities like open space and transportation infrastructure improvements. By including market-rate units, a mixed-income project can bring in revenues sufficient to cover substantial public benefits without requiring outside subsidy.

In the case of Balboa Reservoir, by setting a minimum affordability level and requiring prospective developers to compete to be selected, the City and the SFPUC can select a responsive proposal with a robust "self-financed" affordability program, and then negotiate the application of subsidies to improve that affordability during the exclusive negotiation period. Meanwhile, the subsidies that would have otherwise been used for the affordable housing can be redeployed elsewhere in San Francisco, effectively increasing the number of total below-market-rate units delivered from the same amount of subsidy funding.

This is exactly what has happened with other large master-planned projects on publicly-owned land. One example cited at the January 11 meeting was the Giants' Mission Rock development, approved by the voters on the November 2015 ballot. The Giants entered an Exclusive Negotiation Agreement with the Port in 2010; since then, the Mission Rock project has improved from 15% affordability under the approved term sheet, to 33% at the time of the submission of the ballot measure, to 40% after negotiations with affordable housing stakeholders including CCHO. The Exclusive Negotiation Agreement approach in that instance provides a mechanism for City and Port staff to work with the selected developer partner to structure the transaction and apply subsidies that allow for an affordability level more than two and a half times the legal minimum, while still providing fair market value to the Port as landowner. Staff believes strongly that this same RFP-to-negotiation approach can allow the Balboa Reservoir project to perform even better as to affordability.

Ultimately, staff believes that this mixed-income approach, which Proposition K (approved by voters in November 2015) called out as desirable for other types of public sites with development capacity of over 200 units, makes sense for Balboa Reservoir as well. The staff presentation at the February 8 meeting will explain this reasoning in greater detail.

**REVISED HOUSING PARAMETERS: VERSION 3**

***Principle #1: Build new housing for people at a range of income levels.***

*Draft Parameters:*

- a. Make at least 33% of total housing units permanently affordable in perpetuity to low or moderate -income households, consistent with Proposition K (2014). *(Note: This is consistent with Proposition K (2014), which is described above.)*
  1. Make at least 15% of total housing units affordable to low-income households (up to 55% of Area Median Income (AMI)).
  2. Make an additional 18% (or more) of total housing units affordable to low or moderate-middle-income (up to 120% of AMI). *[Note: This is a correction and clarification, not a substantive change. In current City parlance, households earning up to 120% of AMI are characterized as “moderate-income”, not “middle-income.”]*
- b. Maximize the number of affordable units for low (up to 55% of AMI), moderate (up to 120% of AMI), and middle-income (up to 150% AMI); aim to include propose financial strategies and mechanisms to achieve at least 50% of affordable to low, moderate, and middle-income households. *[Note: The addition of “up to” is for clarity and grammatical consistency only and does not constitute a substantive change. The language “propose financial strategies and mechanisms to achieve...” has been added to emphasize the importance of exceeding the baseline affordable housing goals and the expectation that the developer will apply creative solutions to this challenge.]*
- c. Produce sufficient market rate housing to cover costs, provide an economic return to the SFPUC ratepayers, and ensure project feasibility.
- d. Exceed these minimum affordable housing percentages to the greatest extent possible, provided that all other development parameters are also met.
- e. Provide a mix of rental and ownership units.

***Principle #2: Create housing that can serve a diverse group of household types.***

*Draft Parameters:*

- a. ~~Maximize the proportion of~~ Provide all affordable housing ~~that is provided~~ on-site (as opposed to providing housing off-site or through the developer paying an in-lieu fee). *[Note: new language (in blue) consists of clarifications, not substantive changes.]*
- b. Design a substantial proportion of housing units, common spaces within residential buildings, and public amenities to be suitable for families with children. A key characteristic of “family-friendly” units is that they have at least two bedrooms.
- c. Indicate how family-friendly units will be made accessible to households at a range of incomes.
- d. Consider partnering with City College and/or area schools to allocate on-site units to house students, faculty, and/or staff.

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- e. Identify effective partners and strategies to target ~~Consider targeting~~ affordable housing to special populations such as seniors, physically and developmentally disabled adults, veterans, and/or public servants, subject to fair housing law, ability to secure required subsidy, and related City housing policies.
- f. Consider including alternative housing ownership models, such as co-operative housing.

### ***Principle #3: Help to alleviate City's undersupply of housing.***

#### *Draft Parameters:*

- a. Within the confines of other relevant parameters (e.g. [Principle 1\(a\)](#), neighborhood character, open space, transportation, [City College](#)), and subject to the desired unit sizes and family-oriented units cited above, maximize the amount of new housing created to address the current and projected affordability challenges faced by the neighborhood and the City.
- b. Create housing ~~Maximize the pace of housing creation~~ without compromising the quality of design or construction or outpacing needed transportation infrastructure.