

# **Performance Audit of Affordable Housing Financing**

**Prepared for the**

**Board of Supervisors  
of the City and County of San Francisco**

**by the**

**San Francisco Budget and Legislative Analyst**

**April 4, 2023**

**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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April 4, 2023

President Aaron Peskin and Members of the San Francisco Board of Supervisors  
Room 244, City Hall  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

Dear President Peskin and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Performance Audit of Affordable Housing Financing*. In response to a motion adopted by the Board of Supervisors in July 2021 (Motion M21-116), the Budget and Legislative Analyst conducted this performance audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The objectives of this performance audit were to evaluate the City's processes for identifying and prioritizing financing of affordable housing projects and ensuring optimal and transparent use of all funds available for these projects. The performance audit contains three findings and nine recommendations, five of which are directed to the Executive Director of the Mayor's Office of Housing and Community Development (MOHCD), and four of which are directed to the Board of Supervisors. The Executive Summary, which follows this transmittal letter, summarizes the Budget and Legislative Analyst's findings and recommendations. The recommendations intend to improve the transparency, accountability, and oversight of the City's affordable housing funds.

The Executive Director of the Mayor's Office of Housing and Community Development has provided a written response to our performance audit, attached to this report on page A-1.

President Peskin and Members of the Board of Supervisors

April 4, 2023

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We would like to thank the staff at the Mayor's Office of Housing and Community Development for the assistance they provided during the audit.

Respectfully submitted,



Fred Brousseau  
Principal

cc: Supervisor Chan

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## Executive Summary

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of affordable housing funds administered by the Mayor's Office of Housing and Community Development (MOHCD) through a motion (M21-116) passed on July 27, 2021. The scope of this performance audit includes the financing of affordable housing projects in San Francisco for the period between FY 2017-18 and FY 2021-22. The objectives of this performance audit were to evaluate the City's processes for identifying and prioritizing financing of affordable housing projects and ensuring optimal and transparent use of all funds available for these projects.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office.

This performance audit contains three findings and nine recommendations intended to improve the transparency, accountability, and oversight of the City's affordable housing funds. A previous audit released by our office on June 28, 2021, *Performance Audit of the Mayor's Office of Housing and Community Development's Policies and Procedures for Affordable Housing Development and Preservation*, contains six findings and twelve recommendations regarding (i) MOHCD's policies for equitable geographic distribution of affordable housing; (ii) MOHCD's policies and practices for soliciting and evaluating affordable housing proposals; and (iii) the impact of insufficient developer capacity on affordable housing development and preservation.

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## Section 1: Reporting on Affordable Housing Projects

The Mayor's Office of Housing and Community Development (MOHCD) is required by Chapter 109 of the Administrative Code to produce quarterly milestone reports on the status of affordable housing projects in its pipeline. Our review of these reports found that they do not fully comply with the reporting requirements specified in the Administrative Code. As stated in the 2028 ordinance (Ord. 216-18) that added Chapter 109 to the Administrative Code, these requirements are intended to bring "clarity and speed" to the permitting process for 100 percent affordable housing development projects. Further, we found that the milestone reports were of limited value because MOHCD has not established goals or performance metrics to use as a baseline for comparison to the actual time and cost associated with developing affordable housing. MOHCD does not track and report in its milestone reports on the amount of time that

elapses between a project receiving initial pre-development funding and its Certificate of Occupancy, or the amount of local public subsidy per unit. Without this information, the Board of Supervisors and the public are not able to assess whether MOHCD is meeting its affordable housing goals and improving on these metrics related to cost-effective and timely delivery of affordable housing.

### **Recommendations**

The MOHCD Executive Director should:

- 1.1 Establish performance metrics, such as a not-to-exceed amount for the local public subsidy per unit (i.e., the average cost that the City incurs to develop a unit of affordable housing in a particular project) and a target timeframe from first funding issuance to Certificate of Occupancy.
- 1.2 Include required reporting in quarterly milestone reports pursuant to Administrative Code Section 109.3 as well as data and information on how each project is performing on key metrics, including local public subsidy per unit and timeline to reach Certificate of Occupancy.

The Board of Supervisors should:

- 1.3 Receive annual verbal presentations on MOHCD's quarterly milestone reports through a designated Board of Supervisors committee to track individual project performance against metrics.
- 1.4 Request that the Planning Department and MOHCD reconcile differences in their definitions of completed affordable housing production and either a) report the same production statistics annually, or b) disclose differences in reporting methods in their reports.
- 1.5 Request that the Planning Department and MOHCD report affordable housing production annually relative to goals for the year.

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## **Section 2: Funding Decision Criteria and Transparency**

The Mayor's Office of Housing and Community Development (MOHCD) does not have formalized processes, workflows, or recordkeeping practices that establish and document how decisions are made between different funding sources for affordable housing projects. Due to the complexity of aligning different funding streams in a volatile market, MOHCD relies on the professional

judgment and knowledge of staff to make funding decisions for projects and their informal documentation or memories for records of these decisions. MOHCD's internal pipeline allocations summary document, which tracks committed and planned sources of funding for ongoing and upcoming affordable housing projects, cannot be used to systematically track MOHCD's funding allocation decision-making process; the information in this document is used for internal tracking purposes only and is not publicly reported. As a result, overall transparency of MOHCD's funding decisions and processes is impaired, and the decisions made by MOHCD before proposed affordable housing loans come before the Citywide Affordable Housing Loan Committee are not fully documented, traceable, or formally recorded.

### **Recommendations**

The MOHCD Executive Director should:

- 2.1 Work with MOHCD staff to establish a set of written principles, workflows, guidelines, or best practices that formalizes how funding decisions are made between different funding sources for affordable housing projects, and how affordable housing projects are prioritized for funding allocations. These written principles, workflows, or guidelines, or best practices should be provided for informational purposes to the public and the Board of Supervisors, and should be specific enough to materially improve transparency while allowing MOHCD to retain the flexibility needed to respond to external changes in projects.
- 2.2 Instruct MOHCD staff to provide to the Board of Supervisors, at the time at which a loan agreement is before the Board of Supervisors for approval, a narrative description of the loan's funding sources, the context and rationale for the use of each funding source, how the funding sources align with the specifics of the affordable housing project, and any additional relevant information. In addition, MOHCD staff should report any significant or relevant changes or modifications made to the selection of funding sources during the development of the project.

The Board of Supervisors should:

- 2.3 Consider amending the Administrative Code to require MOHCD, in its quarterly reports on affordable housing development, to include a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter. Any changes made to reporting requirements in the Administrative Code should not result in additional required review or approval cycles for affordable housing projects.

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## **Section 3: Affordable Housing Fund Balances**

At the end of FY 2021-22, the ending fund balance for the City's key local affordable housing funding sources (the Housing Trust Fund, developer fees, and bond funding) was \$537 million. Some of this fund balance is classified as committed for new housing development by MOHCD. Funds identified as committed for new housing development include funds for which formal loan agreements have been executed as well as anticipated but not yet executed loans. In addition, some fund balance is committed to other planned uses, including the Small Sites Program, Downpayment Assistance loans, staff and administrative costs, and other purposes.

For the five years between FY 2017-18 and FY 2021-22, the average ending balance of all funds was \$482 million. Although some of the fund balance for FY 2020-21 is classified by MOHCD as committed, the high and growing fund balances in the City's local affordable housing funding sources generally indicate that the City's revenues for affordable housing projects are collected at a faster rate than funds are expended, and that the City's local resources for affordable housing projects are outpacing its expenditures.

In the context of affordable housing construction, this accumulation of fund balance is partly due to the nature of affordable housing timelines: some revenues and many expenditures do not occur in an even flow year to year. It is also likely that the accumulation of fund balance is a symptom of the lengthy project approval process and project delays for affordable and other housing projects. The San Francisco Housing Element recently adopted by the Board of Supervisors identifies a number of priority actions to expedite and lower the cost of affordable housing construction.

### **Recommendation**

The MOHCD Executive Director should:

- 3.1 Direct MOHCD staff to, in its Annual Progress Report, include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects, including (a) the amount of fund balance at year-end that is already committed, formally or informally, to specific projects and the amount of fund balance that is uncommitted and available for any allowable use, (b) specific definitions that indicate the level or type of commitment (for example, to distinguish between formal encumbrances and less formal commitments, earmarks, or planned uses), and (c) a year-to-year comparison of MOHCD's anticipated prior-year commitments, compared with actual current-year spending on those commitments.



## Introduction

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of affordable housing funds administered by the Mayor's Office of Housing and Community Development (MOHCD) through a motion (M21-116) passed on July 27, 2021.

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## Scope

The scope of this performance audit includes the financing of affordable housing projects in San Francisco for the period between FY 2017-18 and FY 2021-22. The objectives of this performance audit were to evaluate the City's processes for identifying and prioritizing financing of affordable housing projects and ensuring optimal and transparent use of all funds available for these projects.

## Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard performance audit practices, we performed the following performance audit procedures:

- Conducted interviews with management and other staff at the Mayor's Office of Housing and Community Development (MOHCD);
- Reviewed MOHCD's policies and procedures; annual progress reports, strategic plans, and other long-term planning documents;
- Analyzed MOHCD's internal pipeline tracking materials and publicly reported information to evaluate affordable housing construction progress;
- Evaluated reports produced by MOHCD to the Board of Supervisors on the status of affordable housing construction projects;
- Conducted in-depth case study reviews of specific affordable housing projects with significant identified delays;
- Conducted an analysis of revenues, expenditures, and changes in fund balance for the City's main affordable housing funding sources;
- Reviewed the relevant laws, provisions, and other statutes that guide the use of the City's affordable housing funding sources;

- Submitted a draft report with findings and recommendations to MOHCD on December 13, 2022 and conducted an exit conference with MOHCD on January 27, 2023; and
- Submitted the final report, incorporating comments and information provided in the exit conference, to MOHCD on February 24, 2023.

## Acknowledgements

We would like to thank staff at MOHCD for their assistance during this audit process.

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## Affordable Housing Financing

The production and preservation of affordable housing<sup>1</sup> is one of San Francisco's eight major infrastructure service areas detailed in the City's FY 2022-2031 Capital Plan. As outlined in the Capital Plan, affordable housing is integral to San Francisco's economic and social health, along with the City's efforts to advance racial equity. The City supports the development and preservation of affordable housing with a variety of strategies, including capital investment for acquiring and constructing affordable housing and programs to preserve existing affordable housing.

City loans to affordable housing developers are a significant source of funding for affordable housing projects in San Francisco. San Francisco selects developers or developer teams to carry out affordable housing production and preservation projects through Notices of Funding Availability (NOFAs), which are issued when funding is available that is not tied to a particular location, or Requests for Proposals or Qualifications (RFPs or RFQs), which are issued when MOHCD has identified a location for affordable housing development. The selected developers or developer teams conduct the acquisition, preservation, and/or construction of affordable housing in partnership with the City and leverage state and federal funding sources for affordable housing projects.

However, state and federal funding sources are typically not sufficient to fully cover total project development costs. To cover this funding gap, the City awards loans to affordable housing developers using local City funding sources to supplement state and federal funding sources. These City loans are a significant component of a project's funding: the *Affordable Housing Funding, Production, and Preservation* white paper produced by the Planning Department as part

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<sup>1</sup> As defined in the City's FY 2022-2031 Capital Plan, "affordable housing" refers to housing with a rent or cost of ownership equal to 30 percent or less of the household's income and/or housing that is funded by the government, rented or sold at prices that are below the local market rate, and restricted to qualifying households with limited incomes.

of the Planning Department’s Housing Affordability Strategies found that San Francisco’s local funding contribution accounts for, on average, 37 percent of the average affordable housing project funding “stack,” or the combination of funding and financing sources used to pay for the project development, based on a sample of eleven selected affordable housing project pro formas.

In FY 2020-21, MOHCD awarded more than \$200 million in grants and loans for multifamily affordable housing projects. Exhibit I.1 below displays MOHCD’s actual expenditures on multifamily housing grants and loans from FY 2017-18 to FY 2020-21. As shown in the table below, these expenditures increased significantly in FY 2019-20 and FY 2020-21 compared to FY 2017-18 and FY 2018-19, due primarily to increases in revenue from voter-approved general obligation bonds.

**Exhibit I.1: MOHCD Expenditures on Multifamily Housing Grants and Loans,  
FY 2018-19 to FY 2022-23**

	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Multifamily Housing Grants and Loans</b>	\$128,414,294	\$152,563,615	\$286,718,546	\$202,553,028	\$183,996,387

Source: MOHCD Annual Progress reports.

The Citywide Affordable Housing Loan Committee reviews loans and grants for multifamily housing development and acquisition programs prior to the execution of any agreement. The members of the Citywide Affordable Housing Loan Committee include the MOHCD Director, the Office of Community Investment and Infrastructure Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs. The Board of Supervisors must also approve loans and grants that exceed \$10 million. (Chapter 120 of the City’s Administrative Code delegates the authority to approve loans and grants that do not exceed \$10 million for multifamily housing development and acquisition programs to the MOHCD Director.)

MOHCD’s Underwriting Guidelines, which are subject to approval by the Affordable Housing Loan Committee, establish financing terms and standards for developing the projects, including interest, reserves, developer fees, operating costs, and other standards. Borrowers may receive deferred loans for 40 to 75 years, and loan repayment is generally based on residual receipts generated by rents and other project revenues. To defer loan payments, borrowers must ensure the continuing affordability of housing units.

## Major Federal and State Funding Sources

The primary funding sources used in the construction and preservation of affordable housing in San Francisco are described briefly below.

- **Low-Income Housing Tax Credit.** The Low-Income Housing Tax Credit program is a federal tax subsidy that gives investors credit on their tax liability in exchange for equity contributions to subsidize affordable housing development projects. Low-Income Housing Tax Credit equity is often a significant source of subsidy for affordable housing production, and may also be used for affordable housing preservation. The California Tax Credit Allocation Committee administers and allocates tax credits throughout the State of California.
- **Section 8 (Housing Choice Vouchers).** The federal rental assistance program known as Section 8 provides rental payments directly to landlords and may also be leveraged to support loans for affordable housing development.
- **Other federal sources.** Other federal sources of funds for affordable housing come from the HOME Investment Partnerships Program (HOME), Community Development Block Grants, the Housing Opportunities for Persons with AIDS Program, and Emergency Solutions Grants.
- **State of California sources.** The State provides funding through competitive grants and other programs. For example, the Affordable Housing and Sustainable Communities grant funds affordable housing construction and development, as well as transportation infrastructure, to local governments, transportation agencies, and housing developers. The California Housing Accelerator Program enables shovel-ready affordable housing projects that, despite having received one or more awards from other California Department of Housing and Community Development programs, are unable to move forward due to funding gaps that result from their inability to access tax-exempt bond allocations or low-income housing tax credits.

## City Funding Sources

- **Voter-approved bonds for affordable housing.** San Francisco voters have approved several bonds that provide funding for affordable housing, including General Obligation bonds for affordable housing in 2015 and 2019 and the Preservation and Seismic Safety Bond.
- **Development impact fees.** The City requires that housing developers in San Francisco pay a variety of development impact fees that the City may use to fund or support affordable housing projects (in accordance with specific fund requirements), including the following:
  - Fees to support inclusionary housing, paid by developers to the City in lieu of building below market rate units;
  - Jobs-housing linkage fees, which are collected by the City for certain commercial developments; and

- Fees collected in special zoning districts/Area plans, which are paid by developers to support infrastructure needs in areas of concentrated growth in San Francisco.
- **General fund support.** San Francisco allocates General Fund resources to affordable housing through:
  - **The Housing Trust Fund.** The Housing Trust Fund, which was established in 2012 through the passage of Proposition C, is an annual set-aside in the General Fund and represents a total of \$1.2 billion in funding for housing subsidies over the life of the fund. The Housing Trust Fund supports program delivery, MOHCD housing stabilization programs, and loans to affordable housing developers, among other uses.
  - **One-time appropriations.** In recent years, the City has committed some portion of Educational Revenue Augmentation Fund (ERAF) revenues, a one-time and variable City revenue source, to affordable housing.

## Roles of City Agencies in Affordable Housing Financing

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), which serves as the successor agency to the San Francisco Redevelopment Agency, administers previously approved funds for long-term major development projects to meet its enforceable obligations that predate the dissolution of redevelopment agencies in California in 2012.<sup>2</sup> In addition to MOHCD and OCII, several other City agencies are involved in elements of affordable housing development and financing, including the Department of Homelessness and Supportive Housing, which operates the City's services and housing opportunities, including permanent supportive housing, for people experiencing homelessness; the Planning Department, which develops plans and programs for new affordable housing development and administers the ministerial and discretionary approval processes for all development projects in the City; and the San Francisco Housing Authority, which manages Section 8 voucher programs. The Housing Authority has converted most of its public housing

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<sup>2</sup> Redevelopment, which relied on tax increment financing, was San Francisco's largest local affordable housing funding source until 2012, when redevelopment agencies were dissolved statewide. As the successor agency to San Francisco's Redevelopment Agency, OCII oversees the completion of previously approved redevelopment plans, including affordable housing developments. OCII's three extant major redevelopment projects that were previously administered by the former San Francisco Redevelopment Agency are: 1) the Mission Bay North and South Redevelopment Project Areas; 2) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area; and 3) the Transbay Redevelopment Project Area. In addition, OCII continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area.

units into affordable housing locations operated by non-profit management firms but continues to ensure compliance with eligibility and programmatic requirements at the sites.

In addition, as mentioned above, the Citywide Affordable Housing Loan Committee reviews loans and grants for multifamily housing development and acquisition programs. Committee membership includes the MOHCD Director, the OCII Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

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## Mayor's Office of Housing and Community Development

MOHCD has four functional divisions. The two divisions primarily involved in the financing of affordable housing are the Housing Division and the Finance and Administration Division. The responsibilities of each MOHCD functional division are described below.

- The **Housing Division** guides and coordinates the City's affordable housing policies, which are established in the City's General Plan Housing Element; administers federal, state, and local financing programs to develop new affordable housing and preserve existing affordable units; administers the City's Housing Trust Fund along with the Community Development Division; and monitors the long-term affordability and physical conditions of San Francisco's affordable housing portfolio.
- The **Finance and Administration Division** manages MOHCD's financial, human, and technological resources, and in particular is responsible for managing and monitoring MOHCD's financial obligations, including financial policies and procedures and internal controls.
- The **Community Development** division works with community-based partners and administers grant programs and funding sources for MOHCD's community development programs and holds the lead role in the City's digital equity work as the Office of Digital Equity, in partnership with the Department of Technology.
- The **Homeownership and Below-Market Rate** programs division delivers affordable homeownership opportunities in San Francisco, implements inclusionary programs, and ensures that all City-sponsored affordable housing is accessible to the people it is intended to serve.

Exhibit I.2 below displays MOHCD's annual adopted budget for FY 2018-19 through FY 2022-23. MOHCD's budget has fluctuated over this period due to changes in project financing and grant awards, as well as the expiration of some COVID-19 relief funding and other one-time supports.

**Exhibit I.2: MOHCD Adopted Budget, FY 2018-19 to FY 2022-23**

	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>
<b>MOHCD Adopted Budget</b>	\$151,578,420	\$317,206,973	\$197,016,642	\$257,898,096	\$209,785,430

Source: Annual Appropriation Ordinance.

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## 1. Reporting on Affordable Housing Projects

The Mayor's Office of Housing and Community Development (MOHCD) is required by Chapter 109 of the Administrative Code to produce quarterly milestone reports on the status of affordable housing projects in its pipeline. Our review of these reports found that they do not fully comply with the reporting requirements specified in the Administrative Code. As stated in the 2028 ordinance (Ord. 216-18) that added Chapter 109 to the Administrative Code, these requirements are intended to bring "clarity and speed" to the permitting process for 100 percent affordable housing development projects. Further, we found that the milestone reports were of limited value because MOHCD has not established goals or performance metrics to use as a baseline for comparison to the actual time and cost associated with developing affordable housing. MOHCD does not track and report in its milestone reports on the amount of time that elapses between a project receiving initial pre-development funding and its Certificate of Occupancy, or the amount of local public subsidy per unit. Without this information, the Board of Supervisors and the public are not able to assess whether MOHCD is meeting its affordable housing goals and improving on these metrics related to cost-effective and timely delivery of affordable housing.

We recommend that MOHCD improve its milestone reporting by: incorporating the elements required by the Administrative Code, establishing performance metrics related to the time and cost to produce each affordable housing project, reporting on these metrics for every project that appears in its milestone reports, and summarizing their findings for the Board of Supervisors or a designated Board committee.

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### MOHCD Reporting on Affordable Housing

The Mayor's Office of Housing and Community Development (MOHCD) is required to release quarterly milestone reports to update the Board of Supervisors and the Mayor on the status of pending affordable housing projects pursuant to Administrative Code Chapter 109, which was added by ordinance (Ord. 216-18) approved by the Board of Supervisors in September 2018. The stated purpose of the ordinance is to bring "clarity and speed" to the pre- and post-entitlement permitting process for 100 percent affordable housing projects.<sup>1</sup> As stated in Administrative

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<sup>1</sup> As defined in the Administrative Code, a "100 percent Affordable Housing Project" refers to a building where 100 percent of the residential units (not including a manager's unit) will be subject to a recorded regulatory restriction to ensure affordability based on income, or where 100% of the residential units (not including a manager's unit) are funded by a nonprofit charitable organization and will provide permanent housing for homeless or formerly homeless persons.



Code Sec. 109.3, the quarterly milestone reports are required to include the following information on these projects:

- A list of every 100 percent affordable housing project that has applied for approval, permit, or other City authorization from the Department of Building Inspection, Public Works, Fire Department, Mayor's Office on Disability, or Planning Department;
- Information regarding the financing and financing-related deadlines for each 100% Affordable Housing Project;
- Any approval, permit or other City authorization each 100% Affordable Housing Project is waiting to receive from the department or office;
- The date of any application and current status of each pending approval, permit or other City authorization for each 100% Affordable Housing Project.

### Quarterly Milestone Reports Do Not Comply with Administrative Code Requirements

As part of our audit fieldwork, we reviewed seven quarterly milestone reports over the time period October 1, 2019 through December 31, 2021. (We note that one quarterly report for the fourth quarter of calendar year 2020 was not submitted and the third and fourth quarters of calendar year 2021 were provided in a single report.) The reports we reviewed included the following fields for the projects listed:

- Number of units;
- Supervisorial district;
- Housing tenure (type);
- Project type;
- Status;
- Estimated or actual start date;
- Estimated or actual completion date;
- Date of issuance of temporary Certificate of Occupancy;
- Milestones/deliverables this quarter;
- Risks, challenges and major activity; and
- Milestones/deliverables for next quarter.

However, as summarized in Exhibit 1.1 below, the quarterly milestone reports do not fully comply with the stated requirements of the Administrative Code Sec. 109.3.

### Exhibit 1.1: Reporting Requirements for Milestone Reports

Administrative Code Requirements (Sec. 109.3)	Included in Milestone Report?
A list of every 100% Affordable Housing Project that has applied for approval, permit, or other City authorization from the Department of Building Inspection, Public Works, Fire Department, Mayor's Office on Disability, or Planning Department;	Milestone reports include a list of projects undergoing permitting
Information regarding the financing and financing-related deadlines for each 100% Affordable Housing Project;	Information regarding financing and financing-related deadlines is not consistently included
Any approval, permit or other City authorization each 100% Affordable Housing Project is waiting to receive from the department or office;	Specific outstanding permits and/or authorizations are not consistently listed
The date of any application and current status of each pending approval, permit or other City authorization for each 100% Affordable Housing Project.	Date of any application and current status of each pending approval is not included

Source: MOHCD and File No. 18-0547

As summarized in Exhibit 1.1 above, while MOHCD's quarterly milestone reports include information on the 100 percent affordable housing projects in MOHCD's pipeline, they do not consistently report on the status of a project's pending approval, permit, or other City authorization. In addition, our review found that the quarterly milestone reports lack the required information on projects' financing and financing-related deadlines.

The failure to include financial information means that it is not possible to assess the amount and type of local funding that is being provided for each affordable housing project that is included in the quarterly reports, which means that it is not possible to assess the amount of local public subsidy per unit for each project in a single report. The ability to track local public subsidy per unit for each project over time, as discussed in more detail later in this report section, would offer greater transparency related to the total cost of creating affordable housing, including costs incurred by the City.

Similarly, the failure to include information about the date of any application means that it is not possible to track in a single report how long the City is taking to issue a permit for each project. We note that filed and completed Planning and building permit information is available on the San Francisco Planning Department website by searching for a specific project address under the "SF Property Information Map" feature, but the "current status" of a pending approval is not provided. Meeting the milestone reporting requirements specified in the Administrative Code

would enable greater transparency about the process for permitting affordable housing projects. Specifically, we recommend that the office include the four required elements of the report as specific column headers to make it easier to track that this required information is provided for every project listed.

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## **Opportunities to Improve the Usefulness of the Quarterly Milestone Reports**

In addition to complying with the existing requirements in the Administrative Code, our review of MOHCD's quarterly milestone reports identified some adjustments to the information presented in the reports that would improve transparency and accountability. These adjustments, which are discussed in more detail below, include: (1) the establishment of performance metrics for the timely delivery of affordable housing as well as the local and total cost associated with creating new affordable housing; (2) presenting information that allows for the immediate identification of causes of delays; and (3) reporting the local public subsidy per unit to increase accountability for controlling costs.

### **Quarterly Milestone Reports Do Not Present Information on Project Delays in a Manner that Can Drive Policy and Administrative Decision-Making**

We found that the milestone reports did not present information on affordable housing projects in a manner that supports policy and administrative decision-making geared towards producing affordable housing more cost-effectively and/or faster. Readily available summary information in the reports about the number of projects that have experienced a delay in excess of one year, as well as a running list of the specific projects experiencing delays, would promote transparency and accountability.

We analyzed the seven available milestone reports side-by-side to identify projects that experienced a significant delay (i.e., one year or more) in either (1) the estimated or actual construction start date, or (2) the estimated or actual completion date (issue date for the Certificate of Occupancy) from the first report on which the project appears to the last. Of the 43 projects that appeared on some or all of the milestone reports, we identified seven projects with delays of one year or more: four that had a construction start date that was delayed in excess of one year, and three that generally started on time but had a completion date that was delayed in excess of one year. We summarize the delay times for each of the seven projects in Exhibit 1.2.

These seven projects that experienced delays of one year or more over the time period that we reviewed (October 1, 2019 through December 31, 2021) represent 24 percent of the 29 projects

with reported start and end dates. We note that an additional 14 projects experienced shorter delays of less than a year. However, this information was not readily available without conducting our side-by-side analysis of all seven milestone reports.

**Exhibit 1.2: Affordable Housing Projects Experiencing a Delay of One Year or More  
(Oct. 1, 2019 – Dec. 31, 2021)**

Project	Construction Start Date Delay (Weeks)	Completion Date Delay (Weeks)
4840 Mission	-	104
735 Davis	-	89
1351 42 <sup>nd</sup> Avenue	74	65
72-78 Haight	67	-
401 Avenue of the Palms	-	63
4200 Geary	63	-
Treasure Island C3.1 (7 Seas at 6 <sup>th</sup> Street)	62	-

Source: MOHCD.

Note: Only delays of one year or more are displayed.

Of these seven projects in Exhibit 1.2, four received City loans over the time period FY 2017-18 through FY 2019-20: 4840 Mission, 735 Davis, 72-78 Haight, and 4200 Geary. We conducted additional case-study reviews of these four projects, as discussed below.

*Reasons for Delay Are Unknown to the Public*

We were not able to ascertain the primary reason(s) for delay in the case of the four projects for which we conducted a case-study review (4840 Mission, 735 Davis, 72-78 Haight, and 4200 Geary) from publicly available documents. We selected these four projects because they had received local funding during our review period, and therefore generally had associated Citywide Affordable Housing Loan Committee reports that were available to us. Our inability to identify the primary reason(s) for delay for each of the four projects from publicly available materials indicates an overall lack of transparency around reporting the causes of delays, and a lack of accountability for reducing or eliminating delays resulting from City processes in the expected start and/or completion dates for specific projects.

Ultimately, MOHCD reported to us on the causes for delay, as displayed in Exhibit 1.3 below, and we identified three reasons that affected at least two of the four projects:

- A lack of competitiveness for state funding in light of new state criteria;<sup>2</sup>

<sup>2</sup> MOHCD reports that in 2020 the state's bond and tax credit allocation system shifted from an over-the-counter program to a competitive program that weighed costs per unit, among other factors.

- Intervention by a District Supervisor in the design or program plan;
- Projects initiated prior to streamlined approval associated with a 2017 state law, SB 35, which faced the risk of litigation associated with the California Environmental Quality Act (CEQA).<sup>3</sup>

**Exhibit 1.3: Reasons for Delay for Four Specific Projects, As Reported by MOHCD**

Project	Reasons for Delay Reported by MOHCD
<b>4840 Mission</b> <i>Completion date delayed 104 weeks</i>	<ul style="list-style-type: none"> <li>• Project design change initiated by District Supervisor</li> <li>• Lengthy and costly CEQA review (prior to SB 35) for new design</li> <li>• California Debt Limit Allocation Committee (CDLAC) changed scoring criteria, requiring protracted City advocacy to eventually receive a state bond award</li> </ul>
<b>735 Davis</b> <i>Completion date delayed 89 weeks</i>	<ul style="list-style-type: none"> <li>• Lengthy entitlement process (prior to SB 35) to mitigate risk of CEQA litigation—attributed to location in a high-resource neighborhood with little affordable housing</li> <li>• District Supervisor initiated new Senior Operating Subsidies Program, which required adjustments to project’s financing plan and ancillary approvals</li> </ul>
<b>72-78 Haight</b> <i>Start date delayed 67 weeks</i>	<ul style="list-style-type: none"> <li>• Multiple changes to the project’s financing plan necessitated by: (1) changes to the state’s bond and tax credit allocation system, subjecting the project to multiple rounds of applications in a competitive financing process that weighed costs per unit, among other factors, and (2) loss of a large capital contribution from a market-rate project that stalled, requiring an alternative source of funding</li> </ul>
<b>4200 Geary</b> <i>Start date delayed 63 weeks</i>	<ul style="list-style-type: none"> <li>• Covid-related delay for receipt of funding award</li> </ul>

Source: BLA analysis and MOHCD.

CEQA = California Environmental Quality Act

According to MOHCD, in general, there are various extenuating circumstances and factors that are outside of MOHCD’s and, in some cases, the City’s control that cause project delays. MOHCD reports that overall, the largest hurdles it is currently facing are the unpredictability of State funding, lag times in getting PG&E connections, and neighborhood opposition.

Because these reasons for delay are not reported publicly, decision-makers are not well-positioned to consider policy changes that could render projects more competitive for state

<sup>3</sup> SB 35 is a 2017 state law that streamlines approval of 100 percent affordable housing projects in jurisdictions that have not met state-mandated Regional Housing Needs Allocation housing targets, and thereby eliminates CEQA-related costs and the risk of CEQA litigation.

financing or to assess overall management of the City's affordable housing program. Improved reporting on projects that experience long delays, and identification of the causes of delays, would better inform the Board of Supervisors and the public.

### Quarterly Milestone Reports Do Not Present Information on Funding in a Manner that Can Drive Policy and Administrative Decision-Making

As noted earlier in this report, MOHCD's quarterly milestone reports do not provide financial information, as required under Administrative Code Section 109.3. This omission reduces transparency on overall project costs as well as the local public subsidy per unit, and results in a lack of accountability for controlling costs. The local public subsidy per unit is an important metric because the state financing program for bond and tax credit allocation shifted in 2020 to a competitive program that weighs costs per unit, meaning that a failure to report local public subsidy per unit may hinder the Office and other decision-makers in their ability to consider strategies to control costs. We note that the City's Housing Element 2022 Update includes actions to lower City costs for affordable housing, such as those noted below.

- Explore the development of public financing tools such as Infrastructure Finance Districts or a municipal bank to leverage the City's co-investments in order to lower direct City subsidy for permanently affordable housing and/or increase feasibility of approved projects.
- Continue to develop and support alternative and philanthropic funding sources to deliver permanently affordable housing faster and at a cheaper per unit cost through tools such as the Housing Accelerator Fund.

#### *Local Subsidy Per Unit Varies Widely*

We reviewed data provided by MOHCD to arrive at a local public subsidy per unit for projects completed from FY 2017-18 through FY 2021-22, and we found significant variation among programs in the local cost per unit, as displayed in Exhibit 1.4. The local subsidy per unit ranged from \$30,580 to \$608,844 during this period. It would enhance City policymakers' and the public's understanding of the costs to create affordable housing by program if this information were included in the quarterly milestone reports with explanations for the variation in cost per unit by program. It would also put MOHCD and other decision-makers in a better position to control costs that are within their purview.

**Exhibit 1.4: Local Public Subsidy Per Unit**  
**(for projects completed from FY 2017-18 through FY 2021-22)**

Program	Total Project Units	Sum of Loans Disbursed	Local Subsidy Per Unit
Small Sites Program	238	\$144,904,832	\$608,844
Big Sites Program	86	\$27,124,000	\$315,395
Multifamily Rental Program	2,491	\$437,029,558	\$175,443
HOPE SF	642	\$89,683,040	\$139,693
Rental Assistance Demonstration Program	2,826	\$86,419,260	\$30,580
<b>TOTAL</b>	<b>6,283</b>	<b>\$785,160,689</b>	<b>\$124,966</b>

Source: MOHCD

## Performance Metrics

As discussed above, our review of MOHCD's quarterly milestone reports identified gaps in reporting that should be addressed to improve compliance with Administrative Code requirements, improve transparency and reporting, or both. In addition, we recommend that MOHCD establish performance metrics related to the amount of time and cost associated with developing 100 percent affordable housing projects, as this would align better with the goal of the ordinance (Ord. 216-18) adding Administrative Code Chapter 109 to bring "clarity and speed to the pre- and post-entitlement permitting process." Specifically, establishing a performance metric related to an overall project timeline for 100 percent affordable housing projects would enable the Board of Supervisors and the public to assess project timeliness and identify projects with significant delays, including the source of delays and whether those delays are within the City's purview. In addition, establishing a performance metric related to the local public subsidy per unit would provide additional information regarding the financing and cost for each 100 percent affordable housing project.

## Reporting on Affordable Housing Production

Another area where public reporting on affordable housing could be improved is in annual affordable housing production statistics. Two primary sources of information on affordable housing in the City are the affordable housing inventory maintained by MOHCD and the Housing Inventory maintained and published by the Planning Department. Annual reports published by MOHCD also include the number of units added each year.

We reviewed these three sources to present the total number of affordable housing units in this audit report, with particular interest in including the total inventory and the number of affordable housing units added to the MOHCD inventory each year for the past five years. We found variance

in the numbers in the two primary sources internally, as well as between them and the MOHCD annual report. Because there is a great interest in affordable housing on the part of the City's policy makers and the public, these sources should ideally be consistent or there should be straightforward explanations in the reports for why they are different.

Differences between the Housing Inventory and the MOHCD Pipeline report for three years reviewed are presented in Exhibit 1.5 below. As can be seen, variances for the three years ranged from -46 to 1,052. In 2020, the two sources were closest, reporting 715 new units in the Housing Inventory and 761 in the Pipeline, a difference of only 46 units, but the distribution of the units varied greatly between the sources, with the Housing Inventory reporting 52 newly constructed units and the Pipeline reporting 710. This difference was mostly offset by the Housing Inventory reporting 486 new inclusionary units but the Pipeline only reporting 51.

**Exhibit 1.5: Differences in Reported Affordable Housing Production between Planning Department Housing Inventory Report and MOHCD Pipeline Data**

	2019			2020			2021		
	Hsng Invtry	Pipeline	Diff.	Hsng Invtry	Pipeline	Diff.	Hsng Invtry	Pipeline	Diff.
New const.	874	338	536	52	710	(658)	855	1,018	(163)
Inclusionary	405	65	340	486	51	435	355		355
ADUs/other	177		177	177		177	285		285
<b>TOTAL</b>	<b>1,456</b>	<b>404</b>	<b>1,052</b>	<b>715</b>	<b>761</b>	<b>(46)</b>	<b>1,495</b>	<b>1,018</b>	<b>477</b>

Sources: Housing Inventory for each year, San Francisco Planning Department and MOHCD Pipeline data published on SF Open Data.

MOHCD's Annual Progress Reports also provide new affordable housing information, but it is reported on a fiscal year basis, rendering it not comparable to the other two sources. For FY 2019-20, the MOHCD Annual Progress Report shows 329 affordable housing units completed at four project sites, or less than the number of units shown in the Housing Inventory and Pipeline report. The sites and number of units are consistently reported in the annual report but the additional units reported as completed in the Pipeline report are not in the annual reports. None of these sources report the goal for the number of units each year.

Staff from the Planning Department have explained that different criteria may be used between these sources for defining when a project is complete, such as when a Certificate of Occupancy has been issued versus when a final inspection has taken place. Also, the Planning Department includes accessory dwelling units in its count, but as shown in the Exhibit above, removing those units from the full count would still not reconcile the differences.



To improve accountability for production of affordable housing, the documents with this key source of housing production data should be reconciled. We recommend that the Planning Department and MOHCD establish a standard approach to counting and reporting completed affordable housing units so that a consistent number is reported by both, including definitions of “complete” in each source. We also recommend that the numbers be presented relative to goals for the year so that decisionmakers and the public can assess affordable housing program effectiveness and/or identify recurring causes of project delays or changes.

## Conclusion

Our review of MOHCD’s public reporting and quarterly milestone reports identified gaps in reporting on affordable housing financing that should be addressed to improve compliance with Administrative Code requirements and transparency. Although MOHCD has not developed performance metrics related to the local public subsidy per unit or the time associated with delivering a project, we found that information to begin to track these metrics is available from MOHCD upon request. If the department begins reporting this information in its quarterly milestone reports, it would enhance transparency and accountability. Further, the Board of Supervisors would be better positioned to conduct oversight and initiate policy changes to improve performance.

## Recommendations

The MOHCD Executive Director should:

- 1.1 Establish performance metrics, such as a not-to-exceed amount for the local public subsidy per unit (i.e., the average cost that the City incurs to develop a unit of affordable housing in a particular project) and a target timeframe from first funding issuance to Certificate of Occupancy.
- 1.2 Include required reporting in quarterly milestone reports pursuant to Administrative Code Section 109.3 as well as data and information on how each project is performing on key metrics, including local public subsidy per unit and timeline to reach Certificate of Occupancy.

The Board of Supervisors should:

- 1.3 Receive annual verbal presentations on MOHCD’s quarterly milestone reports through a designated Board of Supervisors committee to track individual project performance against metrics.

- 1.4 Request that the Planning Department and MOHCD reconcile differences in their definitions of completed affordable housing production and either a) report the same production statistics annually, or b) disclose differences in reporting methods in their reports.
- 1.5 Request that the Planning Department and MOHCD report affordable housing production annually relative to goals for the year.

## Benefits and Costs

Implementation of the proposed recommendations would benefit oversight and transparency without requiring significant time and effort by MOHCD. We note that MOHCD would need to establish performance metrics and improve the reporting in its quarterly milestone reports, which may require additional staff time. Annual verbal presentations to the Board of Supervisors would also require additional staff time to prepare for and attend the Board of Supervisors Committee hearings.

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## 2. Funding Decision Criteria and Transparency

The Mayor's Office of Housing and Community Development (MOHCD) does not have formalized processes, workflows, or recordkeeping practices that establish and document how decisions are made between different funding sources for affordable housing projects. Due to the complexity of aligning different funding streams in a volatile market, MOHCD relies on the professional judgment and knowledge of staff to make funding decisions for projects and their informal documentation or memories for records of these decisions. MOHCD's internal pipeline allocations summary document, which tracks committed and planned sources of funding for ongoing and upcoming affordable housing projects, cannot be used to systematically track MOHCD's funding allocation decision-making process; the information in this document is used for internal tracking purposes only and is not publicly reported. As a result, overall transparency of MOHCD's funding decisions and processes is impaired, and the decisions made by MOHCD before proposed affordable housing loans come before the Citywide Affordable Housing Loan Committee are not fully documented, traceable, or formally recorded.

We recommend that MOHCD establish a set of written principles, workflows, guidelines, or best practices that formalizes how funding decisions are made between different funding sources for affordable housing projects, and how affordable housing projects are prioritized for funding allocations. We also recommend that MOHCD provide a narrative description of each loan agreement's funding sources to the Board of Supervisors when the agreement is before the Board for approval. Finally, we recommend that the Board of Supervisors consider amending the Administrative Code to require MOHCD, in its quarterly reports on affordable housing development, to include a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter.

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### Affordable Housing Funding Sources

City loans to affordable housing developers are an important source of funding for affordable housing projects in San Francisco (on average, city funding accounts for about 40 percent of project costs). Affordable housing development projects typically receive pre-development loans from the Mayor's Office of Housing and Community Development (MOHCD), which are awarded at the beginning of a project to cover pre-development project costs, and may also receive gap financing, which are loans that make up the difference between total project costs and all other available financing sources.

The City awards loans to affordable housing construction projects in San Francisco using a variety of local funding sources. In FY 2021-22, the City recorded \$105.4 million in affordable housing fund revenue over 21 funding sources. These sources typically include:

- Debt financing, including general obligation bonds approved by voters;
- Allocations from the City's General Fund, including the Housing Trust Fund (a General Fund set-aside) and one-time General Fund appropriations;
- Developer fees collected from developers by the City for projects that meet certain criteria; and
- Federal and state sources, including the HOME Investment Partnerships Program (HOME) and Community Development Block Grants.

MOHCD administers most of San Francisco's sources for affordable housing.<sup>1</sup> A full list of funding sources for affordable housing projects is provided in Appendix A to this report.

### Funding Source Decisions

MOHCD does not have a formalized a process or workflow to document how funding decisions are made between different funding sources for affordable housing projects. Most City funding sources for affordable housing construction have some type of restriction on the use of funds that govern what types of projects the funds may be used for. These restrictions may include restrictions related to use, income level of residents, geographic location, size of housing, and population served. However, other than allocating funding to conform with these restrictions, MOHCD has a significant amount of discretion when deciding which funding sources to allocate to affordable housing projects. While the Citywide Affordable Housing Loan Committee<sup>2</sup> reviews loans and grants for multifamily housing development and acquisition programs prior to the execution of any agreement, the Committee does not participate in MOHCD staff's funding source decision-making process.

MOHCD reports that funding decisions are made with the following considerations:

- Project-specific sources: some funding sources are dedicated to fund specific housing projects, such as the 180 Jones Street Affordable Housing Fund.

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<sup>1</sup> In addition, the Office of Community Investment and Infrastructure (OCII), which serves as the successor agency to the San Francisco Redevelopment Agency, administers previously approved funds for long-term major development projects to meet its enforceable obligations that predate the dissolution of redevelopment agencies in California in 2012.

<sup>2</sup> The members of the Citywide Affordable Housing Loan Committee include the MOHCD Director, the Office of Community Investment and Infrastructure Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.

- Funding tied to a Notice of Funding Availability (NOFA): MOHCD will often conduct a NOFA related to a specific funding source, such as a voter-approved bond issuance, and projects that successfully respond to the NOFA are funded primarily by the specific NOFA fund source.
- Geographic restrictions: some funding sources are restricted to be used within certain geographic areas, such as Van Ness Special Use District fees.
- Use restrictions: most funding sources have use restrictions of some type, including restrictions on new construction vs. acquisition or rehabilitation; area median income (AMI) levels served; and population served.
- Time restrictions: some fund sources, especially Federal and State fund sources, have specific timing restrictions for spending.
- Additional fund source to cover selected costs: certain costs that are standard in affordable housing projects, such as operating and vacancy reserves; tax credit financial consulting; movable furniture and appliances; and marketing and lease-up costs, are not allocated to general obligation bond funding out of an abundance of legal caution. In these instances, MOHCD adds a secondary non-general obligation bond fund source to cover these costs.

MOHCD reports that when allocating funding to a specific affordable housing project, it is constantly aligning the above considerations with fund source balances and evolving project budgets and timelines to maximize the number of units produced and the speed of housing production.

MOHCD relies on the professional judgement and legacy knowledge of staff in order to make decisions to allocate funding among affordable housing projects, which MOHCD reports is standard practice. Funding decisions require staff decision-making and analysis, given the complex nature of funding source and financing structures. These decision-making processes and analytical steps are not documented in MOHCD policies or guidelines. Without documenting and reporting such decision-making and analytical steps, it is difficult for City policy makers and the public to understand the basis for funding decisions, including why some projects are selected for funding and others have funding deferred or are not selected.

To increase transparency, we recommend that MOHCD establish a set of written principles, workflows, guidelines, or best practices that formalizes how funding decisions are made between different funding sources for affordable housing projects, and how affordable housing projects are prioritized for funding allocations. We recommend that these written principles, workflows, guidelines, or best practices be provided for informational purposes to the public, the Board of Supervisors, and the Affordable Housing Loan Committee. The documentation should be specific

enough to materially improve transparency while allowing MOHCD to retain the flexibility needed to respond to external changes in projects.

### Funding Commitments

MOHCD maintains an internal pipeline allocations summary document that tracks committed, planned, and projected sources of funding for ongoing and upcoming affordable housing projects. This document, which MOHCD updates regularly and which we reviewed as part of our audit fieldwork, lists projects by address, type of loan, and resident type, and records the planned combination of funding sources for each individual affordable housing project loan. However, this document is updated regularly by MOHCD as decisions about funding allocations are made and changed throughout the year (including decisions that are made in response to external factors, such as when grant applications are denied, private funding is withdrawn, or bond funding is not awarded), and is used for internal tracking purposes only. The information in this document is not publicly reported and it cannot be used to systematically track MOHCD's funding allocation decision-making process because it is overwritten as opportunities shift and funding decisions change, and because the document contains both estimates of planned or anticipated commitments and formal commitments.

Because this information is not publicly reported at regular intervals, MOHCD's decision-making process about affordable housing funding allocations is not systematically captured or recorded, and it is not possible to track how planned funding allocations change over time or to identify the reasons why planned funding allocations were changed or adjusted. Furthermore, because the allocations and amounts in the internal pipeline allocations summary document are both formal loan commitments and anticipated, planned, and/or estimated loan commitments, it cannot be used in combination with affordable housing fund balance information to identify fund balances that have been formally committed to a particular affordable housing development project and funding sources that have uncommitted funds. Affordable housing fund balances are discussed in more detail in *Section 3: Affordable Housing Fund Balances* of this report.

### Opportunities to Improve Oversight and Transparency

The lack of formalized procedures or workflows in combination with the lack of records to document MOHCD's funding allocation decision-making impairs the overall transparency of MOHCD's processes. The decisions made before proposed affordable housing loans come before the Citywide Affordable Housing Loan Committee are not documentable or traceable, and it is not possible to identify what funding sources MOHCD considered and the rationales for not using certain fund balances before the final loan proposal was presented to the Citywide Affordable Housing Loan Committee. MOHCD reports that given the complexity of aligning multiple funding streams, the unpredictability of many funding sources, project budgets that often experience

increasing costs due to market conditions, and uncertainty about development timelines due to litigation, appeals, and political factors, it is challenging to provide consistent and transparent information.

However, there are opportunities to improve transparency in MOHCD's current reporting on affordable housing. In order to ensure MOHCD's decision-making process is regularly and publicly reported, we recommend that the MOHCD Executive Director instruct staff to provide to the Board of Supervisors, at the time at which a loan agreement is before the Board of Supervisors for approval, a narrative description of the loan's funding sources, the context and rationale for the use of each funding source, how the funding sources align with the specifics of the particular affordable housing project, and any additional relevant information. In addition, MOHCD staff should report any significant or relevant changes or modifications made to the selection of funding sources during the development of the project.

In addition, as discussed in *Section 1: Reporting on Affordable Housing Projects* of this report, MOHCD is required to submit quarterly milestone reports to update the Board of Supervisors and the Mayor on the status of pending affordable housing projects, pursuant to Administrative Code Chapter 109. The Board of Supervisors could consider amending the Administrative Code to require MOHCD, in its quarterly reports on affordable housing development, to include a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter. Any changes made to reporting requirements in the Administrative Code should not result in additional required review or approval cycles for affordable housing projects. This additional requirement is estimated to cost approximately \$30,000 in staff time each quarter.

## Conclusion

There are opportunities to improve MOHCD's documentation and reporting in order to increase transparency around how funding decisions are made prior to submission to the Citywide Affordable Housing Loan Committee. Formalizing a workflow, rubric, or set of guidelines that details how funding decisions are made between different funding sources for affordable housing projects would help ensure that processes are clear and understandable to members of the public, project developers, and the Board of Supervisors, and would allow for better understanding of MOHCD's decision-making process. A narrative description of a loan agreement's funding sources and MOHCD's decision-making will document MOHCD's decision-making process, provide a record of funding decisions that were made, and increase the information available both to the Board of Supervisors and the public. Finally, including a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter in the quarterly milestone reports, which MOHCD already produces,

would similarly increase transparency and allow for regular tracking and reporting of information, without requiring MOHCD to produce another stand-alone report.

## Recommendations

The MOHCD Executive Director should:

- 2.1 Work with MOHCD staff to establish a set of written principles, workflows, guidelines, or best practices that formalizes how funding decisions are made between different funding sources for affordable housing projects, and how affordable housing projects are prioritized for funding allocations. These written principles, workflows, or guidelines, or best practices should be provided for informational purposes to the public and the Board of Supervisors, and should be specific enough to materially improve transparency while allowing MOHCD to retain the flexibility needed to respond to external changes in projects.
- 2.2 Instruct MOHCD staff to provide to the Board of Supervisors, at the time at which a loan agreement is before the Board of Supervisors for approval, a narrative description of the loan's funding sources, the context and rationale for the use of each funding source, how the funding sources align with the specifics of the affordable housing project, and any additional relevant information. In addition, MOHCD staff should report any significant or relevant changes or modifications made to the selection of funding sources during the development of the project.

The Board of Supervisors should:

- 2.3 Consider amending the Administrative Code to require MOHCD, in its quarterly reports on affordable housing development, to include a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter. Any changes made to reporting requirements in the Administrative Code should not result in additional required review or approval cycles for affordable housing projects.

## Benefits and Costs

Implementation of Recommendation 2.1 would require a small amount of MOHCD staff time to establish the recommended procedures and workflows. Regular reporting on approvals and funding decisions related to affordable housing developments considered by MOHCD, as recommended in Recommendation 2.2 and 2.3, would require a small amount of ongoing MOHCD staff time to include this information in the quarterly milestone reports already



produced. Both of these recommendations would increase the transparency of MOHCD's decision-making process related to affordable housing financing. MOHCD estimates that these additional requirements would require approximately 300 to 400 staff hours annually, at an approximate cost of \$41,000 to \$55,000 per year.

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### 3. Affordable Housing Fund Balances

At the end of FY 2021-22, the ending fund balance for the City's key local affordable housing funding sources (the Housing Trust Fund, developer fees, and bond funding) was \$537 million. Some of this fund balance is classified as committed for new housing development by the Mayor's Office of Housing and Community Development (MOHCD). Funds identified as committed for new housing development include funds for which formal loan agreements have been executed as well as anticipated but not yet executed loans. In addition, some fund balance is committed to other planned uses, including the Small Sites Program, Downpayment Assistance loans, staff and administrative costs, and other purposes.

For the five years between FY 2017-18 and FY 2021-22, the average ending balance of all funds was \$482 million. Although some of the fund balance for FY 2020-21 is classified by MOHCD as committed, the high and growing fund balances in the City's local affordable housing funding sources generally indicate that the City's revenues for affordable housing projects are collected at a faster rate than funds are expended, and that the City's local resources for affordable housing projects are outpacing its expenditures.

In the context of affordable housing construction, this accumulation of fund balance is partly due to the nature of affordable housing timelines: some revenues and many expenditures do not occur in an even flow year to year. It is also likely that the accumulation of fund balance is a symptom of the lengthy project approval process and project delays for affordable and other housing projects. The San Francisco Housing Element recently adopted by the Board of Supervisors identifies a number of priority actions to expedite and lower the cost of affordable housing construction.

To increase transparency and provide a year-over-year record of fund balance commitments that distinguishes formal commitments, less formal or planned uses, and available fund balance, we recommend that MOHCD, in its Annual Progress Reports, include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects, including (a) the amount of fund balance that is already committed, formally and informally, to specific projects and the amount of fund balance that is uncommitted and available for any allowable use, (b) specific definitions that indicate the level or type of commitment, and (c) a year-to-year comparison of MOHCD's anticipated prior-year commitments, compared with actual current-year spending.

## Background

The Mayor's Office of Housing and Community Development (MOHCD) is the agency responsible for the administration of most of the City's funding sources for affordable housing construction. These funding sources, described in more detail below, include voter-approved bond funds, General Fund support, fees associated with various types of development and special projects, and federal funding. The City's primary sources for affordable housing funding development are described briefly below. (Additional detail can be found in Appendix A to this report.)

### *Bond funding*

- 2015 Affordable Housing Bond: In November 2015, San Francisco voters approved Proposition A allowing for a \$310 million general obligation bond issuance for affordable housing, including low-income housing development, public housing redevelopment, Mission housing development, and middle-income rental housing and homeownership programs.
- 2019 Affordable Housing Bond: In November 2019, San Francisco voters approved Proposition A allowing for a \$600 million general obligation bond issuance for affordable housing, including low-income housing development, public housing redevelopment, senior and educator housing programs, and middle-income housing and preservation programs.

### *General Fund support*

- Housing Trust Fund: In 2012, voters approved Proposition C establishing the Housing Trust Fund (HTF). HTF was intended to replace the \$50 million invested annually by the San Francisco Redevelopment Agency, which was dissolved by the State in 2012. Pursuant to City Charter Section 16.1101(d), HTF funds are to be used primarily for the creation, acquisition, or rehabilitation of affordable rental or ownership housing, the Down Payment Assistance Loan Program, and the Housing Stabilization Program. In the FY 2013-14 budget, the City appropriated \$20 million to HTF, and the City shall appropriate an amount increasing \$2.8 million per year until the annual appropriation reaches \$50.8 million in FY 2024-25.
- Educational Revenue Augmentation Fund: Funded through a share of property tax revenue, the Educational Revenue Augmentation Fund ("ERAF") supports local school districts. When ERAF receives more than the minimum cost to fund local schools, the excess funds (known as "excess ERAF") are returned to the City's General Fund. MOHCD received ERAF allocations of \$111 million and \$128 million in FY 2018-19 and FY 2019-20, respectively. (Since FY 2019-20, ERAF has not been segregated from the General Fund.)

#### *Development fees*

- Affordable Housing Fund and Small Sites Fees: The Inclusionary Housing Program (Sections 415.1 et seq. of the San Francisco Planning Code) program requires all developers of market rate housing to create housing that is affordable to qualifying households, referred to as “Below Market-Rate Units” (BMR Units). Housing developers meet this requirement by paying an Affordable Housing Fee, building BMR units “on-site”, building BMR units “off-site”, dedicating land (in some neighborhoods) to the City for affordable housing development, paying a fee for the Small Sites program established by MOHCD, or a combination of these options. The Affordable Housing Fee is determined by a fee schedule that is updated annually.
- Affordable Housing Fund Jobs Housing Linkage Fees: The Jobs-Housing Linkage fee (JHLF), effective 1996, collects developer fees for certain commercial developments (Section 413.1 et seq. of the San Francisco Planning Code). All monies pursuant to the Jobs Housing Link Fee Program are deposited in the Citywide Affordable Housing Fund.
- Market and Octavia Area Plan and Upper Market Neighborhood Commercial District Affordable Housing Fee: Effective May 2008, development projects within particular geographic areas (near Market and Octavia streets and the Upper Market area) that are subject to the Residential Inclusionary Affordable Housing Program are required to pay, in addition to the Inclusionary Affordable Housing Fee, a separate affordable housing fee. The fee is determined by the use, location, and square footage of the development. The fees are deposited into the Citywide Affordable Housing Fund but are separately accounted for.
- The Eastern Neighborhoods Community Improvements Fund: Effective December 2008, this special purpose fund, collected through developer fees, is set aside to develop public open space and recreational facilities; transit; streetscape and public realm improvements; and childcare facilities in the Eastern Neighborhoods Program Area. All funds collected from projects in the Eastern Neighborhoods Program Area, excluding Designated Affordable Housing Zones, are deposited in the Eastern Neighborhoods Community Improvements Fund maintained by the Controller.
- Downtown Neighborhood Preservation Fund: The Downtown Neighborhood Preservation Fund was established to receive developer fees and the proceeds from the sale of City property related to the Oceanwide Center project at 50 First Street. The \$40 million is to be used for new construction, acquisition, and/or rehabilitation of affordable housing within a one-mile radius of 50 First Street. Any unspent funds after 10 years are to be returned to the Affordable Housing Fund.
- Other development fees, including the Condominium Conversion Fee, which utilizes the City’s inclusionary affordable housing program as a basis to charge a fee for the

conversion of dwelling units into condominiums; and a development agreement between the City and Sutter West Bay Hospitals, a California nonprofit public benefit corporation doing business as California Pacific Medical Center (CPMC).

#### *Redevelopment*

- Low- and Moderate-Income Housing Asset Fund (LMIHAF): The California Redevelopment Dissolution Law, Assembly Bill 26, was enacted in June 2011. In December 2011, the California Supreme Court upheld AB 26 and all redevelopment agencies in California were dissolved effective February 1, 2012. On January 26, 2012, the San Francisco Board of Supervisors elected to retain the rights by the former San Francisco Redevelopment Agency, and, in June 2012, California passed Assembly Bill 1484, which required successor agencies to former redevelopment agencies to retain affordable housing obligations to qualify for property tax revenues. MOHCD manages the affordable housing assets transferred from former redevelopment agencies and successor agencies, which are held in a Special Revenue Fund called the Low- and Moderate-Income Housing Asset Fund.

#### *Federal funding sources*

- In addition to local funding sources funded through General Fund appropriations, developer fees, or bond funding, MOHCD also administers state and federal funding sources for affordable housing development. Specifically, the City receives funding through the Community Development Block Grant (CDBG) and HOME from the United States Department of Housing and Urban Development (HUD) to serve extremely low-income, low-income, and moderate-income households. CDBG funds are generally used for acquisition and preservation, although CDBG funds are also used for programs, while HOME funds are used for new production. In addition, MOHCD applies for, accepts, and expends HOPWA (Housing Opportunities for Persons With Aids) funds on behalf of the San Francisco Emergency Medical Services Agency (EMSA), which includes San Mateo County. HOPWA funding provides housing and long-term rental subsidies and supportive services during that fiscal year.

## Accumulation of Fund Balances

At the end of FY 2021-22, the ending fund balance for the City's key local affordable housing funding sources (the Housing Trust Fund, developer fees, and bond funding) was \$536.9 million. Exhibit 3.1 below displays a summary of the fund balances by type of fund. (Exhibit 3.1 does not include funding that is paid out on a reimbursement basis, including CDBG and HOME funds; the Low- and Moderate-Income Housing Asset Fund; or funding sources like ERAF, where revenues

are recorded separately in the City's financial system, which would not be accurately reflected in our fund balance calculations.)

Generally speaking, increases in fund balance over the period indicate that revenue was collected at a faster rate than funds were expended. This is partly due to the nature of affordable housing: some revenues and many expenditures do not occur in an even flow year to year. There is an inherent lag between receipt of funds or approval of general obligation bonds by the voters and spending of funds. In addition, the increasing fund balances over time are indicative of the growth in the number of active housing development projects being coordinated by the MOHCD team at any given time, as well as the City's increased financial commitment to affordable housing. Affordable housing projects may take years to ramp up spending due to a variety of factors, including delays in developer financing or other factors such as the City's entitlement process, which may result in project funding that may be committed or held for a prolonged period before any funds are expended.

**Exhibit 3.1: Significant Local Affordable Housing Funding Source Balances**

	Year-End Fund Balance*				
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Bond funds	\$154,903,866	\$94,900,229	\$122,890,478	\$314,752,212	\$216,955,134
Housing Trust					
Fund	43,808,708	36,065,111	54,495,905	80,900,263	111,087,801
Development					
fees and special					
projects	250,500,604	259,435,194	230,883,150	229,695,037 1	208,831,610
<b>Total</b>	<b>\$449,213,178</b>	<b>\$390,400,535</b>	<b>\$408,269,534</b>	<b>\$625,347,512</b>	<b>\$536,874,544</b>

Source: MOHCD.

\* As discussed in this section, the fund balances presented here include funding that is already committed for specific uses, as well as funding that is uncommitted and available for allowable use.

Note: This exhibit does not include funding that is paid on a reimbursement basis, including CDBG and HOME funds, the Low- and Moderate-Income Housing Asset Fund, or with funding sources like ERAF and HOPE SF funding where revenues are recorded separately in the City's financial system, which would not be accurately reflected in our fund balance calculations.

As shown in Exhibit 3.1 above, the fund balance of the City's bond funding for affordable housing increased significantly between FY 2019-20 and FY 2020-21, due to the approval of the 2019 Affordable Housing Bond. The City's Housing Trust Fund, which is funded through an annual set-aside of the General Fund, grew by \$67.3 million, or 154 percent, between FY 2017-18 and FY 2021-22.

The fund balances shown in Exhibit 3.1 above include both funds that are committed for specific uses and funds that are uncommitted and, generally speaking, are available for allowable use. Exhibit 3.2 below displays MOHCD's classifications of its FY 2021-22 year-end fund balance. As shown in Exhibit 3.2 below, some of the fund balances are classified by MOHCD as committed to new housing development, which includes funding committed pursuant to executed loan agreements and funding earmarked for future anticipated but not yet executed loans. In addition, some fund balance is committed to other planned uses, including the Small Sites Program, Downpayment Assistance loans, staff and administrative costs, and other purposes.

Exhibit 3.2: FY 2021-22 Year-End Balance Commitments

	Bond funds	Housing Trust Fund	Dev. fees and special proj.	Total	% Total Fund Bal.
<b>FY 2021-22 Year-End Balance</b>	<b>\$216,955,134</b>	<b>\$111,087,801</b>	<b>\$208,831,610</b>	<b>\$536,874,545</b>	<b>100.0%</b>
<b><i>MOHCD commitments: executed loan agreements and earmarked amounts for potential future projects</i></b>					
<b><i>New housing development</i></b>					
Active new housing development - not yet encumbered	39,349,578	7,718,019	38,823,189	85,890,786	16%
New housing development - FY 22-23 loan closings	154,782,358	48,115,761	110,636,529	313,534,648	58%
New housing development - FY 23-24 loan closings	-	11,904,039	12,941,012	24,845,051	5%
<b><i>New housing dev. subtotal</i></b>	<b><i>194,131,936</i></b>	<b><i>67,737,819</i></b>	<b><i>162,400,730</i></b>	<b><i>424,270,485</i></b>	<b><i>79%</i></b>
<i>New housing dev. - % of fund bal. committed</i>	89%	61%	78%		
<b><i>Other planned uses</i></b>					
Budget authority, revenue not yet received or at risk	-	-	26,513,678	26,513,678	5%
Small Sites Projects - Future Years	10,847	9,011,060	6,738,709	15,760,616	3%
Downpayment Assistance	6,025,089	9,525,495	-	15,550,584	3%
Property holding costs	-	2,987,506	6,531,187	9,518,693	2%
Eviction Prevention & Housing Stabilization - FY 22-23	-	1,895,584	-	1,895,584	0.4%
Staffing and administrative costs	-	1,789,509	-	1,789,509	0.3%
Project-related City Attorney costs	1,762,406	-	-	1,762,406	0.3%
Cost of Issuance, CGOBOC, and CSA	1,535,917	-	-	1,535,917	0.3%
Complete Neighborhoods Program	-	824,069	-	824,069	0.2%
<b><i>Other planned uses subtotal</i></b>	<b><i>9,334,259</i></b>	<b><i>26,033,223</i></b>	<b><i>39,783,574</i></b>	<b><i>75,151,056</i></b>	<b><i>14%</i></b>
<i>Other planned uses - % of fund bal. committed</i>	4%	23%	19%		
<b>Total</b>	<b>\$203,466,195</b>	<b>\$93,771,042</b>	<b>\$202,184,304</b>	<b>\$499,421,541</b>	<b>93%</b>

Source: MOHCD.

Note: Percentages may not add due to rounding.

The level of flexibility of these commitments and planned uses shown in Exhibit 3.2 varies by type of commitment. For example, some fund balances are formally encumbered under existing loan agreements with developers, while other fund balances are less formally earmarked or identified for a particular use. For example:



- The “Active new housing development - not yet encumbered” amount (\$85,890,786 in total, or 16 percent of the total fund balance) reflects fully executed loan commitments
- The “New housing development - FY 23-24 loan closings” amount (\$24,845,051 in total, or 5 percent of the total fund balance) reflects loans that are anticipated but not yet executed and could change.
- The “New housing development - FY 22-23 loan closings” amount (\$313,534,648 in total, or 58 percent of the total fund balance) includes both fully executed loans and anticipated but not yet executed loans.
  - Though this category represents the largest share of the fund balance, due to the amount of time that would be required for the analysis, MOHCD did not differentiate how much of this amount is committed under fully executed loans, and how much is only anticipated for not yet executed loans.
- The funding committed under “Small Sites Projects – Future Years” is for identified Small Sites projects for which MOHCD has made a commitment but has not yet executed a loan agreement.

In summary, some of the less formal commitments shown in Exhibit 3.2 may potentially be adjusted, moved, or deferred after the close of FY 2021-22, depending on changes in project development, scope, availability, project prioritization, or other factors. Based on the summary information in Exhibit 3.2, without further detail and specificity, it is not possible to break down how much of the fund balance classified as “committed” is formally committed to a project under a loan agreement, and how much is less formally committed and subject to change. According to MOHCD, this more detailed breakdown is possible but time-consuming and will depend on the execution date and encumbrance date of each individual loan agreement.

MOHCD provided the FY 2021-22 year-end fund balance information to us for inclusion in this audit report. However, comprehensive reporting of fund balance information and commitments is not formally defined or regularly prepared or reported by MOHCD (although fund balance encumbrances are reported for limited specific funding sources in MOHCD’s Annual Progress Reports).

To increase transparency and provide a year-over-year record of fund balance commitments, we recommend that MOHCD, in its Annual Progress Report, include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects, including (a) the amount of fund balance that is already committed to or earmarked for specific projects and the amount of fund balance that is uncommitted and available for any allowable use, (b) specific definitions that indicate the level or type of commitment (for example, to distinguish between formal encumbrances and less formal commitments or earmarks), and (c)

a year-to-year comparison of MOHCD's anticipated prior-year commitments, compared with actual spending for the reported year. This reporting should show progress on expediting affordable housing construction and expenditures of fund balances, consistent with goals of the Housing Element. This reporting should also show commitments that were deferred, adjusted, or dropped during the reporting year.

The cumulative balance of the City's funding for affordable housing from development fees and special project fees, including Inclusionary Fees, the Jobs-Housing Linkage Fee, the Eastern Neighborhoods Community Improvements Fund, and the Downtown Neighborhood Preservation Fund, has ranged from \$208.8 million to \$259.4 million annually. These funding sources, which are generally paid by developers for specific types of development projects and/or projects in specific areas of San Francisco, are shown in additional detail in Exhibit 3.3 below. Some sources are project-specific, meaning that fees are collected or funds are held in association with a particular project (see 180 Jones, 5M, and CPMC). The definitions and additional context for each of these funding sources is included in Appendix A to this report and also summarized at the beginning of this report section.

**Exhibit 3.3: Affordable Housing Funding Source Balances,  
Development Fees and Special Projects**

<b>Year-End Fund Balance</b>					
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Inclusionary	\$103,639,255	\$96,827,985	\$86,790,473	\$84,982,708	\$71,050,115
Inclusionary					
Small Sites	3,195,431	2,975,754	4,434,557	3,975,632	4,588,411
Jobs-Housing					
Linkage	75,990,013	82,188,510	32,505,692	33,646,553	32,611,979
Condo Convers.	7,739,189	7,585,952	7,673,767	8,939,871	9,246,117
Market Octavia	4,942,453	6,778,871	10,871,811	12,409,603	12,468,236
DNPF	17,775,041	15,769,864	14,924,133	13,872,744	12,728,272
EN Alternative**	3,840,931	3,840,931	3,840,931	3,840,931	3,840,931
EN Mission**	1,121,179	799,767	1,131,938	1,139,310	1,970,881
EN SOMA**	3,974,063	4,711,282	6,357,872	6,195,367	6,224,641
5M	-	-	23,124,010	23,124,010	23,124,010
Van Ness Special					
Use	10,131,500	10,244,824	14,624,514	14,719,745	14,789,294
CPMC	18,151,549	26,211,454	23,556,642	22,848,566	18,851,197
180 Jones	-	1,500,000	1,046,811	-	(2,662,472)
<b>Total</b>	<b>\$250,500,604</b>	<b>\$259,435,194</b>	<b>\$230,883,150</b>	<b>\$229,695,037</b>	<b>\$208,831,610</b>

Source: MOHCD.

\*DNPF: Downtown Neighborhood Preservation Fund.

\*\*EN: Eastern Neighborhoods Community Improvements Fund.

Overall, as shown in Exhibit 3.3 above, in the past five fiscal years (FY 2017-18 through FY 2021-22) the City has ended the year with more than \$200 million in fund balances from development fees and special projects. Of the funding sources shown in Exhibit 3.3, funding from the Inclusionary Housing Program and the Jobs-Housing Linkage Fee have the highest fund balances each year, although both of these funding sources have seen reductions in year-end fund balances between FY 2017-18 and FY 2021-22. According to MOHCD, collection of these fees has significantly decreased during the COVID-19 pandemic. (For example, inclusionary housing fee collections totaled \$28.9 million in FY 2019-20, compared to \$4.9 million in FY 2020-21 and \$4.2 million in FY 2021-22.)

Exhibit 3.4 below shows beginning fund balances and revenues and expenditures per year for the main categories of MOHCD funding. As can be seen, both revenues and expenditures can vary significantly from year to year. While this fluctuation reflects the nature of affordable housing funding and production, it also shows that resources generally exceed immediate opportunities

for expenditure, because while funding may be committed to active projects with spending in future years, projects take a long time to move forward.

Exhibit 3.4 also shows that revenues over the five-year period have averaged \$215.2 million per year and expenditures \$177.4 million, indicating that funds are being expended in reasonable proportion to revenues. However, when the FY 2017-18 beginning fund balance of \$348 million is included, the historical analysis shows that a substantial portion of total resources went unused over the five-year period: the average starting balance over the five-year period was \$444.3 million; the average ending fund balance was \$482 million.

**Exhibit 3.4: Affordable Housing Funding Source Revenues, Expenditures, and Ending Balances**

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Average
<b>Bond funds</b>						
Revenues	\$142,984,643	\$3,104,104	\$95,120,696	\$255,796,598	\$7,639,846	\$100,929,177
Expenditures	33,061,675	63,107,741	67,130,447	63,934,864	105,436,924	66,534,330
Beg. balance	44,980,898	154,903,866	94,900,229	122,890,478	314,752,212	146,485,537
End balance	154,903,866	94,900,229	122,890,478	314,752,212	216,955,134	<b>180,880,384</b>
<b>Housing Trust Fund</b>						
Revenues	46,865,808	35,201,671	91,037,431	97,131,595	66,221,648	67,291,631
Expenditures	37,611,562	42,945,268	72,606,636	70,727,237	36,034,111	51,984,963
Beg. balance	34,554,462	43,808,708	36,065,111	54,495,905	80,900,263	49,964,890
End balance	43,808,708	36,065,111	54,495,905	80,900,263	111,087,801	<b>65,271,558</b>
<b>Dev. fees and special projects</b>						
Revenues	44,892,326	86,189,206	77,201,424	12,508,737	13,975,672	46,953,473
Expenditures	62,907,372	77,254,615	105,753,467	13,696,851	34,839,100	58,890,281
Beg. balance	268,515,650	250,500,604	259,435,194	230,883,150	229,695,037	247,805,927
End balance	250,500,604	259,435,194	230,883,150	229,695,037	208,831,610	<b>235,869,119</b>
<b>Grand total</b>						
Revenues	234,742,776	124,494,981	263,359,550	365,436,930	87,837,167	215,174,281
Expenditures	133,580,609	183,307,624	245,490,550	148,358,951	176,310,135	177,409,574
Beg. balance	348,051,011	449,213,178	390,400,535	408,269,534	625,347,512	<b>444,256,354</b>
End balance	449,213,178	390,400,535	408,269,534	625,347,512	536,874,544	<b>482,021,061</b>

Source: MOHCD.

## Availability of Fund Balances

The fund balance information presented in the exhibits above shows the year-end balances of funding that remain after a funding source's revenues and expenditures during the year have been recorded. The accumulation and ongoing persistence of high fund balances, captured in the average ending balance of \$482 million, indicate, in broad terms, that the City's local revenues

for affordable housing projects are outpacing its expenditures. It also indicates that that over the last five years, the City's financial commitment to affordable housing has increased (for example, with the \$600 million affordable housing general obligation bond), as well as the length of time it takes projects to be completed. According to MOHCD, once funding is identified, projects may take between 5 and 7 years to be completed.

It should be noted that Exhibits 3.1, 3.3, and 3.4 above do not distinguish between funding that is committed for another project to be spent in future years, either formally as part of an affordable housing loan agreement or informally as part of MOHCD's internal planning, and funding that is not committed or has not been planned for use. As shown in Exhibit 3.2 and discussed earlier in this section, fund balances may be encumbered under existing loan agreements, may be planned for future use under anticipated future loan agreements, or may be earmarked by MOHCD for other anticipated or planned future use.

Overall, the fund balance information presented above could indicate that the City is not expending its local resources for affordable housing projects quickly enough to maximize its use of available revenues. In other words, it is likely that the accumulation of fund balance is a symptom, at least in part, of a well-identified problem in San Francisco affordable housing projects: lengthy project approvals and project delays. In addition, it reflects the increase in the number of active projects being managed by MOHCD and their fiscal responsibility of not committing to projects for which they do not have the required funding.

Affordable housing projects are major, long-term capital projects that span multiple years and require collaboration among multiple entities, including MOHCD, housing developers, non-profit organizations, and other parties. Projects depend on the availability of non-City funding sources, the cost and availability of development sites, and multiple other factors. In addition, projects must adhere to and comply with a complex process of state and local approvals, zoning constraints, and other requirements before they can proceed. Streamlining the affordable housing approval and construction process to expedite project approval and construction would shorten the overall project timeline, which would in turn enable affordable housing funds to be expended at a faster rate, leading to lower fund balances and improved efficiency of the City's affordable housing construction.

The City's FY 2022-31 Capital Plan emphasizes that the City prioritizes affordable housing feasibility and cost efficiency in San Francisco. In addition, in January 2023, the Board of Supervisors adopted the final draft of the City's Housing Element 2022 Update (Ord. No. 010-23), which contains a set of housing-related policies and objectives, some of which are designed to

streamline the affordable housing approval process and reduce project delays, which, if implemented, may result in fund balances being spent at a faster rate, as well as funding being spent more efficiently and expeditiously.

## Conclusion

There are opportunities to improve the transparency of reporting around local affordable housing funding sources. MOHCD reports on the revenues, expenditures, and fund balances of certain affordable housing funding sources by fund in its Annual Progress Report but does not report the total year-over-year changes in fund balances of all local City funding sources for affordable housing projects. This information would be particularly useful for the public and for the Board of Supervisors if MOHCD reports the amount of fund balance that is already committed, both formally and informally, to specific projects, as well as the amount of fund balance that is uncommitted and available for any allowable use.

## Recommendation

The MOHCD Executive Director should:

- 3.1 Direct MOHCD staff to, in its Annual Progress Report, include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects, including (a) the amount of fund balance at year-end that is already committed, formally or informally, to specific projects and the amount of fund balance that is uncommitted and available for any allowable use, (b) specific definitions that indicate the level or type of commitment (for example, to distinguish between formal encumbrances and less formal commitments, earmarks, or planned uses), and (c) a year-to-year comparison of MOHCD's anticipated prior-year commitments, compared with actual current-year spending on those commitments.

## Benefits and Costs

Implementation of the proposed recommendation would improve public transparency and reporting and increase the overall efficiency and speed of the City's affordable housing construction process. The recommended reporting would require ongoing MOHCD staff time to prepare the fund balance information, which MOHCD estimates would cost approximately \$30,000.

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## **Appendix A: Written Response from Mayor's Office of Housing and Community Development**

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



London N. Breed  
Mayor

Eric D. Shaw  
Director

March 23, 2023

**To:** Severin Campbell, Director of Budget and Legislative Analyst's Office Members of the Board of Supervisors

**From:** Eric Shaw, Director of Mayor's Office of Housing and Community Development

**Subject:** Performance Audit of Affordable Housing Financing

A handwritten signature in blue ink, appearing to be "ES", located to the right of the "From:" line.

The Board of Supervisors directed the Budget and Legislative Analyst (BLA) to conduct a performance audit of the City's processes for identifying and prioritizing financing of affordable housing projects and ensuring optimal and transparent use of all funds available for these projects. We thank the BLA for their hard work on the audit and appreciate the opportunity to describe our affordable housing financing and production work and respond to their recommendations.

As described in the affordable housing chapter of the City's FY22-31 Capital Plan, affordable housing production and preservation are contingent on project feasibility. Project feasibility depends on the availability of City and non-City funds, the cost and availability of development sites, and the cost of construction. Projects that are infeasible or cannot secure funding cannot proceed. MOHCD must balance maximizing the number of affordable units by focusing on cost efficiency with delivering units across a broad spectrum of need and geography. Existing plans and strategies guide decision-making process and considerations, including our Consolidated Plan, and MOHCD follows industry best-practices in all of our funding decisions. However, ***due to the complexity of aligning unpredictable funding streams in a volatile market, financing affordable housing projects is a complex process that cannot be replicated or standardized over years or across projects.***

Despite these substantial complexities, MOHCD continues to produce new affordable units and preserve existing affordable units. In FY21-22, MOHCD invested \$184M in multifamily housing grants and loans to fund the development and construction of 100% affordable housing projects. That year, we completed construction on five new 100% affordable housing developments and added more than 1,000 new affordable homes to our existing pipeline, bringing our pipeline total to more than 11,000 units. As of Q1 2023, 2,181 100% affordable multifamily rental units are under construction or rehabilitation under MOHCD sponsorship, with another 2,436 units in active predevelopment (pre-entitlement or permitting), and 124 units leasing up this quarter. This represents 4,741 units in active new affordable housing production. Also in Q1 2023, MOHCD issued three Notices of Funding Availability (NOFAs) representing \$92 million in funding for the



acquisition, predevelopment, construction, and capital improvement financing for affordable housing, including \$32 million for educator housing.

### **The Changing Financial Environment for Affordable Housing**

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

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

Additional market shocks are impacting financing options and development costs, creating new hurdles: Covid supply chains issues continue to disrupt budgets and timelines; surging interest rates are driving up both holding and construction costs; climate change and natural disasters are increasing insurance rates.

Collectively, these factors are making it increasingly difficult to create predictable funding plans, budgets, and timelines for the production of affordable housing across the country.

### **Reporting on Affordable Housing Projects**

The goals of the BLA performance audit are to evaluate the City's processes for (1) identifying and prioritizing financing of affordable housing projects, and (2) ensuring optimal and transparent use of all funds available for these projects.

Towards the first goal, the complex financing process cannot be easily replicated or standardized over years or across projects. Financing must be nimble and responsive to many factors: the complexity of aligning multiple funding streams, the unpredictability of funding sources, project budgets that often experience increasing costs due to market conditions, and uncertainty about development timelines due to litigation, appeals, and political factors. MOHCD and our affordable housing developers rely on substantial technical expertise to identify and prioritize financing in a dynamic and ever-changing environment.

The existing regulations and controls for funding affordable housing include the following.

- Funding sources are regulated by statute—voter-approved proposition, development agreements, or budgeting mechanisms—that specify the scope of how funds can be spent.

- The Citywide Affordable Housing Loan Committee reviews loans and grants for multifamily housing development and acquisition programs prior to the execution of any agreement. The Committee includes the MOHCD Director, the Office of Community Investment and Infrastructure Executive Director, and the Department of Homelessness and Supportive Housing Deputy Director for Programs.
- The Board of Supervisors must approve loans and grants that exceed \$10 million. (Chapter 120 of the City's Administrative Code delegates the authority to approve loans and grants that do not exceed \$10 million for multifamily housing development and acquisition programs to the MOHCD Director.)

MOHCD's Underwriting Guidelines, which are subject to approval by the Affordable Housing Loan Committee, establish financing terms and standards for developing the projects, including interest, reserves, developer fees, operating costs, and other standards. Borrowers may receive deferred loans for 40 to 75 years, and loan repayment is generally based on residual receipts generated by rents and other project revenues. To defer loan payments, borrowers must ensure the continuing affordability of housing units.

All final funding packages are subject to approvals from multiple bodies, including the Board of Supervisors.

Towards the second goal, while establishing metrics will not necessarily increase the speed at which projects receive Certificate of Occupancy nor reduce costs associated with development and construction due to the aforementioned extenuating circumstances, we agree that recommending per-unit amounts for local public subsidies and target timeframes for the funding, development, construction, and completion of affordable housing projects could increase transparency. We can incorporate these metrics into the department's quarterly milestone reports.

However, we are concerned that this additional reporting will result in additional approval cycles or delays, and we cannot establish new not-to-exceed subsidy amounts as that would entail updating Underwriting Guidelines that were just updated in the past year. Given the dynamic trajectory of affordable housing projects over their development timeline (up to five years), providing point-in-time information on a structured timeline may not be useful to stakeholders who are invested in addressing development delays in real time.

Specific to transparency, MOHCD agrees with the BLA recommendation to establish clear principles and best practices for determining financing structures for affordable housing projects. However, the determination process cannot be standardized across projects. Factors such as geographic location and its impact on cost and neighborhood acceptance, a project's size and ability to achieve economies of scale, the unit mix within a project (e.g., studios versus five-bedroom units), site origination (e.g., surplus government land or market rate purchase), and a project's competitiveness for State funds result in wide variations on financing strategies, total development costs, and per-unit City subsidy. While we support making the process more transparent, standardization would not be an effective approach towards those goals and will impair the City's ability to finance complex projects. While it's possible to provide a narrative description of the loan's funding sources and context and rationale for the use of each funding

source to the Board of Supervisors, these funding structures are subject to change based on local economic conditions, the allocation of Federal and State resources, and potential changes in funding needs across projects in response to external economic and scheduling factors.

### **Emerging Efforts**

Mayor Breed's Housing for All Executive Directive tasks MOHCD with focusing the City's efforts on increasing affordable housing production by providing direction and oversight as a member of an Interagency Implementation Team, and will work with City partners to develop a near-term plan for convening City leadership, staff, policymakers, affordable housing advocates, and industry experts to collaborate on an Affordable Housing Implementation and Funding Strategy as well as a Cost Reduction report. Additionally, MOHCD will join other City agencies in developing a Citywide Housing Delivery Performance Assessment and Improvement Plan.

We look forward to discussions on all of the following policy recommendations, including the resources needed to advance the affordable housing pipeline, meet the spectrum of housing needs across the City, and grow and sustain the capacity of housing developers.

### **MOHCD Response to BLA Recommendations**

**Recommendation 1.1:** Establish performance metrics, such as a not-to-exceed amount for the local public subsidy per unit (i.e., the average cost that the City incurs to develop a unit of affordable housing in a particular project) and a target timeframe from first funding issuance to Certificate of Occupancy.

- *MOHCD Comments:* MOHCD currently defines a per-unit subsidy goal in each procurement. Also in place is a series of cost containment controls for all project finance structures, including underwriting guidelines, bond guidelines, construction financing cost analyses, and terms and contracts that ensure we are in line with maximum subsidy amounts as dictated in our procurements. Please note that establishing additional metrics will not necessarily increase the speed at which projects receive Certificate of Occupancy nor reduce costs associated with development and construction, as discussed in the sections above.
- To be determined; we estimate that the process to establish metrics would take 12 months.

**Recommendation 1.2:** Include required reporting in quarterly milestone reports pursuant to Administrative Code Section 109.3 as well as data and information on how each project is performing on key metrics, including local public subsidy per unit and timeline to reach Certificate of Occupancy.

- *MOHCD Comments:* MOHCD supports this recommendation.
- *Timeline for Completion:* MOHCD will include the required information in the next quarterly report (FY23-Q3).

**Recommendation 2.1:** Work with MOHCD staff to establish a set of written principles, workflows, guidelines, or best practices that formalizes how funding decisions are made between different funding sources for affordable housing projects, and how affordable housing projects are prioritized for funding allocations. These written principles, workflows, or guidelines, or best practices should be provided for informational purposes to the public and the Board of

Supervisors, and should be specific enough to materially improve transparency while allowing MOHCD to retain the flexibility needed to respond to external changes in projects.

- *MOHCD Comments:* MOHCD supports this recommendation. If implemented by the Board, the process to produce this deliverable would be integrated into MOHCD's efforts to meet the Housing for All Mayoral Directive. This would ensure that the principles guiding funding decisions align with the Affordable Housing Implementation and Funding Strategy as well as a Cost Reduction report.
- **Timeline for Completion:** Spring 2024.

**Recommendation 2.2:** Instruct MOHCD staff to provide to the Board of Supervisors, at the time at which a loan agreement is before the Board of Supervisors for approval, a narrative description of the loan's funding sources, the context and rationale for the use of each funding source, how the funding sources align with the specifics of the affordable housing project, and any additional relevant information. In addition, MOHCD staff should report any significant or relevant changes or modifications made to the selection of funding sources during the development of the project.

- *MOHCD Comments:* MOHCD support this recommendation, with the understanding that the narrative description would be non-binding; i.e., sometimes MOHCD needs to change fund sources Board approval due to unforeseen circumstances and a requirement to return to the Board for new approval would have dire consequences for project delivery.
- **Timeline for Completion:** If directed by the Board, MOHCD could implement this recommendation in summer 2023.

**Recommendation 3.1:** Direct MOHCD staff to, in its Annual Progress Report, include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects, including (a) the amount of fund balance at year-end that is already committed, formally or informally, to specific projects and the amount of fund balance that is uncommitted and available for any allowable use, (b) specific definitions that indicate the level or type of commitment (for example, to distinguish between formal encumbrances and less formal commitments, earmarks, or planned uses), and (c) a year-to-year comparison of MOHCD's anticipated prior-year commitments, compared with actual current-year spending on those commitments.

- *MOHCD Comments:* MOHCD provides a summary of expenditures and remaining balances on core funding sources in Annual Progress Reports and supplemental biannual reports. MOHCD agrees with the BLA recommendation to include a comprehensive summary total of year-over-year changes in fund balances of all local city funding sources for affordable housing projects. The additional information as described in this recommendation could be included in future reports.
- **Timeline for Completion:** The 2022-23 Annual Report could include the information recommended. This report will be published in spring 2024.

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## Appendix B: Affordable Housing Funding Sources

### **Housing Trust Fund (HTF) and Housing Trust Fund Advance**

*Section 16.110 et seq. of the San Francisco City Charter*

In 2012, voters approved Proposition C establishing the Housing Trust Fund (HTF). HTF was intended to replace the \$50 million annually invested by San Francisco Redevelopment Agency, a program dissolved by the state in 2012. Pursuant to the San Francisco Charter Section 16.1101(d), HTF funds are to be used primarily for the creation, acquisition, or rehabilitation of affordable rental or ownership housing, the Down Payment Assistance Loan Program, and the Housing Stabilization Program. In the FY 2013-14 budget, the City appropriated \$20 million to HTF, and the City shall appropriate an amount increasing \$2.8 million per year until the annual appropriation reaches \$50.8 million in FY 2024-25. In the annual budgets for FY 2025-26 through FY 2042-43, the City shall appropriate an amount equal to the prior year's appropriation, adjusted by the percentage increase or decrease in General Fund Discretionary Revenues. The FY 2021-22 budget prefunded \$17.6 million of future HTF requirements, which reduced the necessary future payments over a five-year term beginning in FY 2023-24.

### **Affordable Housing General Obligation Bonds**

According to the City Services Auditor's Annual General Obligation Bond Program Report, there are three active general obligation (GO) affordable housing bonds: the 2015 Affordable Housing, the 2016 Preservation and Seismic Safety (PASS), and the 2019 Affordable Housing bonds. A total of \$1.2 billion has been authorized across these bonds, and, as of June 30, 2022, \$755 million remains across these bonds. Of this \$755 million, the 2015 Affordable Housing Bond accounts for \$49 million, the 2016 PASS Bond accounts for \$202 million, and the 2019 Affordable Housing Bond accounts for \$503 million. In addition, of this \$755 million, \$432 million of voter-authorized bonds has not yet been issued across the three bonds. All three bonds are managed by the Mayor's Office of Housing and Community Development (MOHCD).

#### **2015 Affordable Housing Bond**

In November 2015, voters approved Proposition A allowing for a \$310 million general obligation bond issuance for affordable housing, including low-income housing development, public housing redevelopment, Mission housing development, and middle-income rental housing and homeownership programs. The ordinance allows for an increase in property tax to pay the bonds. In October 2016, the first issuance of bonds totaling \$75.1 million occurred (99 percent spent as of June 2022). In May 2018, the second issuance of bonds totaling \$142.1 million occurred (99 percent spent as of June 2022). In October 2019, the third and final issuance of bonds totaling \$92.8 million was received (47 percent spent as of June 2022). The first and second issuances are projected to be fully expended by the end of 2022 and the third bond



issuance is projected to be fully expended by early 2023. The 2015 bond issued \$100 million for low-income affordable housing, \$50 million for low-income affordable housing in Mission District, \$80 million for public housing (HOPE SF), and \$80 million for middle income programs, including Down Payment Assistance Loans (DALP).

#### 2016 Preservation and Seismic Safety (PASS) Bond

In 2016, voters approved Proposition C diverting the remaining bond authority of \$260.7 million previously approved by voters in 1992, but never used, for seismic safety improvements to preserve the affordability of existing rental housing, protect residents at risk of displacement, and improve seismic safety. The debt service on the general obligation bonds will be funded through increased property tax assessments. MOHCD is directing these funds to the Preservation and Seismic Safety Program for acquisition and rehabilitation subsidy loans for preservation of small and large sites. New construction and acquisition without rehabilitation are not eligible uses of these funds. According to the City Services Auditor's Annual General Obligation Bond Report, the first issuance totaling \$72.4 million was received in February 2019, and MOHCD expects to fully expend it by January 2023. The second issuance of \$102.6 million was received in December 2020, and MOHCD expects to fully expend it by December 2024. The third issuance is expected to be received around the same time-period with a subsequent completion date of 2028.

#### 2019 Affordable Housing Bond

In November 2019, voters approved Proposition A allowing for a \$600 million bond issuance for affordable housing, including low-income housing development, public housing redevelopment, senior and educator housing programs, and middle-income housing and preservation programs. The ordinance allows for an increase in property tax to pay the bonds. The initial bond issuance, received in March 2021, totaled \$254.1 million, and as of June 2022, 38 percent of the bond has been spent. The first issuance is projected to be spent by mid-2024, and the second and third issuances are anticipated for late-2022 and late-2023, respectively. The estimated funding program for the 2019 bond is \$150 million for public housing, \$220 million for low-income housing, \$30 million for affordable housing preservation and \$30 million for middle-income housing, \$150 million for senior housing, and \$20 million for educator housing.

#### Affordable Housing Fund (AHF) Inclusionary

*Sections 415.1 et seq. of the San Francisco Planning Code*

The Inclusionary Housing Program was adopted to meet the City's need for affordable low, moderate, and middle-income housing. The program requires all developers of market rate housing to create housing that is affordable to qualifying households referred to as "Below Market-Rate Units" (BMR units). The developers meet this requirement by paying an Affordable Housing Fee, building BMR units "on-site," building BMR units "off-site," dedicating land (in some neighborhoods) to the City for affordable housing development, paying a fee for the Small Sites

program established by MOHCD, or a combination of these options. The Affordable Housing Fee is determined by a fee schedule that is updated annually. With some exceptions, all monies pursuant to the Inclusionary Affordable Housing Program are deposited in the Citywide Affordable Housing Fund.

#### **Affordable Housing Fund Jobs Housing Linkage Fees**

*Section 413.1 et seq. of the San Francisco Planning Code*

The Jobs-Housing Linkage fee (JHLF), effective 1996, collects developer fees for certain commercial developments. All monies pursuant to the Jobs Housing Link Fee Program are deposited in the Citywide Affordable Housing Fund, and these funds are used to increase the supply of Affordable to Qualifying Households.

With some exceptions provided by the Planning Code, the Jobs-Housing Linkage program applies to any development project: (1) that increases by 25,000 or more square feet for any combination of the following uses: entertainment, hotel, Integrated PDR, office, research and development, retail, and/or Small Enterprise Workspace, and (2) whose environmental evaluation application for the development project was filed on or after January 1, 1999. The fee amount is determined by various formulas that consider the use and the gross square footage of the project. Developers may satisfy all or a portion of the requirements under this program via dedication of land to the City for the purpose of constructing units Affordable to Qualifying Households.

#### **CDBG & HOME**

The City receives funding through the Community Development Block Grant (CDBG) and HOME from the United States Department of Housing and Urban Development (HUD) to serve extremely low-income, low-income, and moderate-income households. CDBG funds are used for acquisition and preservation, as well as non-housing programs, while HOME funds are used for new production.

#### **HOPWA**

MOHCD applies for, accepts, and expends HOPWA (Housing Opportunities for Persons With AIDS) funds on behalf of the San Francisco Emergency Medical Services Agency (EMSA). The total HOPWA expenditures for San Francisco EMSA in FY 2021-22 was \$8.08 million. According to MOHCD's Annual Progress Report FY 2020-21, HOPWA funding provided housing and long-term rental subsidies and supportive services during that fiscal year.

#### **California Pacific Medical Center (CPMC)**

Ordinance 138-13, passed July 2013, approves a development agreement between the City and Sutter West Bay Hospitals, a California nonprofit public benefit corporation doing business as California Pacific Medical Center (CPMC). The agreement involves certain real property owned

by CPMC and associated with the CPMC Long Range Development Plan (LRDP). CPMC's LRDP proposed an integrated, modern system of healthcare and medical facilities. In March 2012, CPMC filed an application with the City's Planning Department for approval of a development agreement relating to project sites and filed applications with the Department for certain activities. Within the development agreement was a housing program providing over \$36.5 million to affordable housing.

#### **Low- and Moderate-Income Housing Asset Fund (LMIHAF)**

The Redevelopment Dissolution Law, Assembly Bill 26, was enacted in June 2011. In December 2011, the California Supreme Court upheld AB 26 and all redevelopment agencies in California were dissolved effective February 1, 2012. On January 26, 2012, the Board of Supervisors elected to retain the rights by the former San Francisco Redevelopment Agency, and, in June 2012, California passed Assembly Bill 1484, which required successor agencies to former redevelopment agencies to retain affordable housing obligations to qualify for property tax revenues. The City implemented AB 1484 by acknowledging Successor Agencies are obligated to the development of affordable housing required to fulfill the Major Approved Development Projects and the Replacement Housing Obligation. MOHCD manages the affordable housing assets transferred from former redevelopment agencies and successor agencies. The assets are held in a Special Revenue Fund, the Low- and Moderate-Income Housing Asset Fund (LMIHAF).

#### **Condo Conversion**

The Condominium Conversion Fee and Expedited Conversion program utilizes the City's inclusionary affordable housing program as a basis to charge a fee for the conversion of dwelling units into condominiums. The Citywide Affordable Housing Fund receives the revenue of these fees. The fund is used exclusively for MOHCD for the purpose of supporting affordable housing.

#### **HOPE SF General Funds and Certificates of Participation (COPs)**

In FY 2019-20, \$83.6 million of Certificates of Participation (COPs) was appropriated to MOHCD to fund HOPE SF. The funds are placed on the Controller's Reserve pending the sale of the Certificates of Participation.

#### **Market and Octavia Area Plan and Upper Market Neighborhood Commercial District Affordable Housing Fee**

Effective May 2008, development projects within the Market and Octavia Plan Area and the entirety of the Upper Market NCT District that are subject to the Residential Inclusionary Affordable Housing Program are required to pay, in addition to the Inclusionary Affordable Housing Fee, a separate affordable housing fee. The fee is based on the use, location, and square footage of the development. The fees are deposited into the Citywide Affordable Housing Fund but are separately accounted for. MOHCD's priorities of the fund are to increase the supply of housing Affordable to Qualifying Households in certain geographic regions in the following order:



1) the Market and Octavia Plan Area and the Upper Market NCT District, 2) within one mile of the boundaries of the Plan Area and the Upper Market NCT District, and 3) in the City. The funds may also be used for monitoring and administrative expenses.

#### **The Eastern Neighborhoods Community Improvements Fund**

Effective December 2008, this special purpose fund, collected through developer fees, is set aside to develop public open space and recreational facilities, transit, streetscape and public realm improvements, and childcare facilities in the Eastern Neighborhoods Program Area. All funds collected from projects in the Eastern Neighborhoods Program Area, excluding Designated Affordable Housing Zones, are deposited in the Eastern Neighborhoods Community Improvements Fund maintained by the Controller. For projects located in the Designated Affordable Housing Zones, 25 percent of the funds are deposited in the Eastern Neighborhoods Community Improvement Fund and 75 percent in the Citywide Affordable Housing Fund.

#### **Downtown Neighborhood Preservation Fund**

The Downtown Neighborhood Preservation Fund was established to receive developer fees and the proceeds from the sale of City property related to the Oceanwide Center project at 50 First Street. The \$40 million is to be used for new construction, acquisition, and/or rehabilitation of affordable housing within a one-mile radius of 50 First Street. Any unspent funds after 10 years are to be returned to the Affordable Housing Fund.

#### **5M**

In 2015, the City entered a development agreement with 5M Project, LLC for the Fifth and Mission Project, a 4-acre mixed use development including office, residential, retail, cultural, educational, open space, parking, and related uses located at Fifth Street between Mission and Howard Streets. The proposed project includes various public benefits to include a minimum percentage of affordable housing, including both on-site affordable units and units built by fee payments by MOHCD.

#### **Van Ness Special Use District**

The Van Ness and Market Affordable Housing and Neighborhood Infrastructure Program, effective May 2008, applies a fee to development projects located in the Van Ness and Market Residential Special Use District (SUD). The fee is deposited into either the Van Ness and Market Downtown Residential SUD Affordable Housing Fund or Infrastructure Fund. The SUD Affordable Housing Fund priorities are to increase the supply of Affordable to Qualifying Households in certain geographic regions in the following order: 1) Van Ness & Market Residential SUD, 2) one mile of the boundaries of the Market and Octavia Plan Area, and 3) the City. The SUD Infrastructure fund is set aside to develop neighborhood recreation and open space, pedestrian amenities and streetscape improvements, and bicycle infrastructure. The priorities of the fund are in certain geographic regions in the following order: 1) the Van Ness and Market Residential Special Use District and 2) within the Market and Octavia Plan Area or within 1,250 feet of the

Plan. Funds may also be used by the Planning Commission to revise the fee, or for services for a proposed project.

### **Project Specific Funds**

#### **180 Jones**

In March 2017, the City waived the Jobs-Housing Linkage Fee, the Affordable Housing Requirements, and other requirements for a project located at 950-974 Market Street in exchange for the dedication of property at 180 Jones to MOHCD at no cost and payment by the project sponsor of approximately \$11.25 million to the 180 Jones Street Affordable Housing Fund. The fund is to be exclusively used by MOCHD to support development and construction of affordable housing units at 180 Jones Street. If the City fails to approve a revised project at 180 Jones Street within five years of the last payment to the Fund, the money in the Fund will be deposited into the Citywide Affordable Housing Fund.

#### **75 Howard**

In February 2017, MOHCD was authorized to accept a gift of \$6.01 million from RDF 75 Howard LP to the Citywide Affordable Housing Fund. RDF 75 Howard LP, the developer of a project at 75 Howard Street, gave this gift in addition to paying its 20 percent inclusionary housing fee to the City.

#### **AAU**

In January 2020, a development agreement between the City and the Academy of Art University was approved, which provides public benefits including an “affordable housing payment” of \$37.6 million and a payment of \$8.2 million to the City’s Small Sites Fund.

#### **722 Montgomery**

In March 2020, MOHCD was authorized to accept a gift of \$100,000 from San Francisco 722 Montgomery to the Citywide Affordable Housing Fund. San Francisco 722 Montgomery, a developer of a residential project located at 722 Montgomery, gave this gift in addition to paying its required inclusionary fee.

### **EN Alternative**

The Eastern Neighborhoods Area Plan Alternative Affordable Housing Fee, effective January 2009, applies to development projects that are subject to the Eastern Neighborhood Controls, consist of 20 units or less or less than 25,000 gross square feet, and are subject to the requirements of Sections 415 through 415.9 of the Inclusionary Affordable Housing Program and Section 419, Housing Requirements for Residential Development Projects in the UMU Zoning Districts of the Eastern Neighborhoods and the Land Dedication Alternative in the UMU District, Mission NCT District, and Central SoMa Special Use District. The EN Area Plan Alternative Affordable Housing Fee is paid into the Citywide Affordable Housing Fund, but the funds are accounted for separately. The funds are expended to increase the supply of housing Affordable

to Qualifying Households in the following geographic areas in order of priority: 1) EN Project Areas, 2) within one mile of the boundaries of the EN Project Areas, and 3) the City. The funds may also be used for monitoring and administrative expenses. The funds are expended within the area bounded by Market Street, the Embarcadero, King Street, Division Street, and South Van Ness Avenue.

### **Pier 70**

In November 2017, a development agreement between the City and FC Pier 70 was approved for the mixed-use development of approximately 28 acres of Seawall Lot 349, a land parcel on Pier 70. The project will include approximately 1,000 to 2,000 residential units with at least 30 percent of which will be on-site housing affordable to a range of low- to moderate-income households. In addition, the development agreement requires the developer to pay affordable housing impact fees to MOHCD.

### **Central SOMA JHL**

All funds pursuant to the Jobs-Housing Linkage Program and collected within Central SoMa Special Use District is paid into the Citywide Affordable Housing Fund, but the funds are separately and expended only within the area bounded by Market Street, the Embarcadero, King Street, Division Street, and South Van Ness Avenue. Through land dedication alternatives, residential projects in this SUD may fulfill their Inclusionary Housing requirement, and non-residential projects may fulfill their Jobs-Housing Linkage Fee requirement.

### **ERAF**

Funded through a share of property tax revenue, the Educational Revenue Augmentation Fund (“ERAF”) supports local school districts. When ERAF receives more than the minimum cost to fund local schools, the excess funds (“Excess ERAF”) are returned to the county, cities, and/or special districts. The Affordable Housing Production and Preservation Fund (“the Fund”) is funded through excess ERAF returned to San Francisco. MOHCD administers the Fund and may consult with the City Administrator, Board of Supervisors, and other City bodies and departments on potential uses of the Fund. In each fiscal year, up to 60 percent of the monies appropriated to the Fund is to be used for the purpose of funding land acquisition and production of new 100 percent affordable housing projects. At least 40 percent of the monies appropriated to the Fund should be used for the purpose of acquisition and preservation of existing housing with the goal of making such housing permanently affordable, to include housing acquisitioned through the City’s Small Sites Program. Beginning May 1, 2021, and every two years thereafter, MOHCD should submit a report evaluating the use of the Fund to the Board of Supervisors and the Mayor, if additional ERAF has been added to the Fund.