Ben Rosenfield Controller

Todd Rydstrom Deputy Controller

Nadia Sesay Director Office of Public Finance

## **MEMORANDUM**

TO:

Honorable Mayor Edwin M. Lee

Honorable Members, Board of Supervisors

FROM:

Nadia Sesay, Public Finance Director

Robert Beck, Treasure Island Director

SUBJECT:

Treasure Island/Yerba Buena Island: Affordable Housing Funding Plan

DATE:

Monday, November 14, 2016

This memorandum identifies strategies to address the affordable housing funding gap in the Treasure Island Program as they relate to legislative actions pending at the Board of Supervisors.

## **Executive Summary**

- In 2011, the Board of Supervisors adopted a series of resolutions to approve numerous entitlement and transaction documents relating to Treasure Island/Yerba Buena Island Development Project.
- The Project includes the development of 8,000 new homes (including 2,173 or 27.2% affordable units), 300 acres of parks and open space, roughly 550,000 square feet of commercial and retail space, and up to 500 hotel rooms.
- Treasure Island Community Development ("TICD") is required to deliver a wide range of public
  improvements, including geotechnically stabilizing the project site; constructing new roadways,
  utilities, and other public infrastructure to support the Project; and constructing new ferry
  facilities, a new police/fire public safety building, and other community facilities.
- The City, in partnership with Treasure Island Homeless Development Initiative ("TIHDI"), is required to develop the affordable housing units.
- The City is obligated under the Disposition and Development Agreement dated June 7, 2011 ("DDA") to establish the required public financing mechanisms as development commences.
- The first five of seventeen resolutions and ordinance required to form the Infrastructure Financing and Revitalization District ("IRFD") and Community Facilities District ("CFD") are pending at the Board of Supervisors. If adopted the resolutions are adopted, the formation of the districts would be considered by the Board of Supervisors in January following Public Hearings on the districts.
- The IRFD will allow Treasure Island Development Authority ("TIDA") to capture property tax increment for affordable housing and to reimburse Treasure Island Community Development ("TICD") for eligible public infrastructure expenses.

- The CFD will place a supplemental assessment on development parcels which will reimburse eligible TICD public infrastructure expenses and will fund future sea level rise adaptation strategies and park & open space maintenance, but which cannot finance affordable housing.
- The 2011 agreements allowed for 1,684 affordable units with the option to develop up to 1,866 affordable units without compensation to the developer, TICD, although it was not determined at the time how the City might finance these additional units.
- Since the adoption of the DDA in 2011 revised projections have identified a gap of \$382 million across a total cost of \$968 million to construct the 1,864 units.
- The gap includes funding an additional 184 affordable housing units, increased construction cost, and lost contributions from State and Federal funding programs which no longer exist. Most notable is the loss due to dissolution of redevelopment of the Educational Revenue Augmentation Fund ("ERAF") which represent 25.3% of the 1% ad valorem property tax.
- Potential solutions to close the affordable housing funding gap will be available in near-, mid-, and long-term, over the life of the development and will entail future Board actions and change in State law.
- The City is projected to deliver 720 TIDA/TIHDI affordable units over 7 parcels between 2018 when the first parcel will be available and 2026 with funding in the near-term from MOHCD.
- The committed and project-generated sources funds 1,429 units (including the 720 units above) or 65% of the affordable housing obligation, including inclusionary units, over the life of the development.
- To the extent that we are able to further realize the potential funding sources identified in this memo, 1,967 units or 90% of the affordable housing obligation including inclusionary units can be delivered over the life of the development.
- Although the City has rights to develop over 20 parcels, the City projects it can construct the 1,864 units on only 17 parcels. Therefore, the City has 3 parcels available for future affordable housing development beyond the 8,000 units and outside of the scope of the development.

### **Affordable Housing Program**

Table 1 below, summarizes some of the key characteristics of the affordable housing program and costs in 2011 compared to 2016.

Table 1: Affordable Housing Program - 2011 and 2016

| ,                              | 2011                        | 2016          |  |
|--------------------------------|-----------------------------|---------------|--|
| Total Affordable Housing Units | 2,000                       | 2,173         |  |
| TIDA/TIHDI Units               | 1,684                       | 1,864         |  |
| Inclusionary Units             | 316                         | 309           |  |
| Total Cost of TIDA/TIHDI Units | \$600 million \$968 million |               |  |
| Estimated Funding Gap          | \$144+ million*             | \$382 million |  |

Includes expired Federal and State sources, TIHDI financing obligation, and construction of Tax Credit ineligible market rate units.

With the elimination of redevelopment, the Project was limited to the share of ad valorem property taxes allocated to San Francisco as a City and County which are 64.7% of the total revenues. State law authorizing the formation of Infrastructure Financing Districts ("IFDs") allowed the City to leverage these revenues in a manner similar to redevelopment law. In the Finance Plan and Housing Plan as revised following the dissolution of redevelopment, the City dedicated 56.7% of the ad valorem tax revenues to the financing of the public improvements, with 82.5% of that amount committed to the reimbursement of TICD for the provision of infrastructure improvements and 17.5% of that amount set aside to finance affordable housing to be constructed by TIDA and TIHDI. The resultant financing structure is reflected in Table 2.

Table 2: Available Tax Increment Under Redevelopment Law vs Treasure Island Post-Redevelopment Finance Plan

|                              | RDA* | IFD**  | Notes   |
|------------------------------|------|--------|---|
| General Fund Subtotal        | 13%  | 8%     | 8% of local Tax Increment to GF; 56.7 to project implementation |
| SF School District           | 6.5% | 7.7%   | Not available under IFD   |
| ERAF                         |      | 25.3%  | Not available under IFD   |
| Other Districts              | 0.5% | 2.3%   | Not available under IFD   |
| Affordable Housing           | 20%  | 9.92%  | =17.5% of 56.7%   |
| Available for Infrastructure | 60%  | 46.78% | =82.5% of 56.7%   |
| Total                        | 100% | 100%   |   |

<sup>\* –</sup> Under Redevelopment Law, the State committed the ERAF share of property tax increment derived from the project area to the Redevelopment Agency ("RDA") for the financing of public improvements and affordable housing within the project area.

# Addressing the Funding Gap

As illustrated in Table 3, the \$382 million funding gap considers only funding contributions from affordable housing tax credits, TICD's affordable housing subsidy payment, and tax increment to be leveraged through the IRFD. The committed and project-generated sources funds 1,429 units or 65% of affordable housing obligation, which includes inclusionary units. It does not factor in potential contributions from potential state and local revenues. There are several other avenues that we can pursue to close the funding gap, but the pursuit of these revenues will, by necessity, unfold over time. It is difficult to currently predict with certainty the timing of sources and amounts available to contribute to the final funding program. If these potential funding sources are realized, 1,967 units or 90% of the affordable housing obligation including inclusionary units will be delivered over the life of the development.

<sup>\*\* -</sup> Per the Treasure Island Finance Plan, local Tax Increment is to be leveraged through an Infrastructure and Revitalization Financing District ("IFD")

The City is exploring a number of alternative funding sources to close the funding gap. The funding source with the potential greatest impact is the restoration of the State ERAF share that was lost when the State dissolved redevelopment in 2011. The restoration of the ERAF Share is one of several of the funding strategies which would require State legislation. The Infrastructure Financing Plan before the Board provides that any additional revenues arising from changes in IRFD law including the reinstatement of ERAF and/or the pledge of MVLF would be used exclusively to finance affordable housing.

Table 3: Net Funding Need (\$ in Millions)

|  | Amount |
|--|--------|
| Estimated Cost of Construction                   | (968)  |
| Committed Non-Project Sources (Tax Credits)      | 449    |
| Project Generated Sources (Net Increment, Other) | 138    |
| Affordable Housing Need                          | (382)  |
| Short-Term MOHCD Funding                         | 30     |
| State Legislative Changes:                       |        |
| ERAF Share: 25.3% (Bond Proceeds)                | 206    |
| IRFD Extension                                   | 38     |
| Net Funding Need Gap                             | (108)  |
| Future Local Shares                              |        |
| GF Share: 8%                                     | 65     |
| Leverage Island Revenue                          | TBD    |
| Future MOHCD Funding                             | TBD    |

It is also useful to understand when potential sources may be available to support the housing program. Table 4, below, illustrates which sources may be available in the near-, mid-, and long-term.

**Table 4: Affordable Housing Funding Sources** 

|                                 | Near-Term | Mid-Term | Long-Term |
|---------------------------------|-----------|----------|-----------|
| Local Project Generated Sources |           | •        |           |
| GF Share: 8%                    |           | Х        | Х         |
| Leverage Island Revenue         | Х         | Х        | Х         |
| Grants                          |           |          |           |
| AHSC                            | Х         | Х        |           |
| No Place Like Home              |           | Х        |           |
| Legislative Changes             |           |          |           |
| State ERAF Share                |           | Х        | Х         |
| IRFD Extension                  |           |          | Х         |
| MOHCD Funding                   | X         | Х        | X         |

#### Conclusion

TIDA and TIHDI have been working with the MOHCD to develop a funding strategy with an emphasis on projects deliverable over the next 10 years. It is very difficult to predict with any certainty what local revenues will be available beyond 10 years and what other projects will be competing for those resources. Based on our efforts, we project that we will be able to deliver 720 TIDA/TIHDI affordable units between 2018 — when the first parcel will be available — and 2026 with approximately \$30 million in support from MOHCD. These projections do not assume external grants or the legislative changes described above which could make more funds available. To the extent that we are able to realize the potential funding sources identified above, 1,967 units or 90% of the affordable housing obligation including inclusionary units will be delivered over the life of the development.

To date, TICD has demolished structures on Yerba Buena Island and, in August, began demolition on Treasure Island. TICD has taken bids for the initial infrastructure contracts on Yerba Buena Island – for new water storage reservoirs and for new roadways and utility infrastructure – and those contractors are poised to mobilize and begin construction in the coming weeks.

For this work to continue moving forward, it is essential that the City and TIDA commence formation of the initial IRFD and CFD to demonstrate the capacity to reimburse TICD – and, by extension, their lenders – for eligible work as it is completed. A delay in the formation of the IRFD and CDF would slow the release of funds and progress to implement the Program would stall.

The administration of the IRFD and CFD will require TIDA and the Office of Public Finance to appear regularly before the Board of Supervisors to authorize future bond sales and take other actions. We would update the Board of the progress in funding individual affordable housing projects and narrowing the overall funding gap as a regular part of every report.

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-554-5956 or Bob Beck at 415-274-0646 if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
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