

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 25, 2021

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 28, 2021 Special Budget and Appropriations Committee Meeting

TABLE OF CONTENTS

Item	File	Page
3	21-0538 Appropriation - Fiscal Cliff Reserve \$128,300,000 - Mayor's Office of Housing and Community Development - \$64,150,000 for Rent Relief and \$64,150,000 for Social Housing - FY2021-2022	1

<p>Item 3 File 21-0538 <i>(Continued from June 16, 2021)</i></p>	<p>Department: Mayor’s Office of Housing and Community Development (MOHCD)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to the Mayor’s Office of Housing and Community Development, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund in FY 2021-22. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In October 2020, the Board of Supervisors approved ordinances establishing two funds, the COVID-19 Rent Resolution and Relief Fund and the Housing Stability Fund, with the intent to deposit a portion of the revenues generated by the increase in the real estate transfer tax to each fund. Section 32.1 of the Annual Appropriation Ordinance (AAO) establishes the Fiscal Cliff Reserve with a proposed amount of \$293,900,000 from FY 2020-21 unassigned fund balance for the purpose of managing projected budget shortfalls. • Funds in the Rent Resolution and Relief Fund may be used to provide grants to landlords to cover up to 50 percent of unpaid rent (and up to 65 percent for landlords with 10 or fewer units) related to COVID-19. Funds in the Housing Stability Fund would be used for the acquisition, preservation, and development of affordable social housing. MOHCD has not determined which projects would be funded by the Housing Stability Fund. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund and \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The total funds accumulated to date for rent relief are approximately \$101,687,829. This amount includes approximately \$91,637,829 in federal funding (provided both directly to the City and allocated by the State) and \$10,050,000 appropriated from the City’s General Fund in April 2021. Additional federal funding from the American Rescue Plan Act, via the State, is anticipated to be allocated to San Francisco. MOHCD has not expended any of this funding and does not plan to expend any local funds until the federal funding is exhausted, which is estimated in approximately Summer 2022. • The existence of the State and City rental assistance programs, which cover up to 80 percent and 100 percent, respectively, of unpaid rent for households making up to 80 percent of Area Median Income (AMI), may disincentivize landlords to accept grants funded by the COVID-19 Rent Resolution and Relief Fund, which only covers 50-65 percent of unpaid rent. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

San Francisco voters approved Proposition I in November 2020, increasing the real estate transfer tax to 5.5 percent on transactions of \$10 million to \$25 million and to 6 percent on transactions of \$25 million or more, which according to the November 2020 Voter Guide, was estimated to increase real estate transfer tax revenues by \$196 million. The tax is a General Fund revenue.

In August 2020, the Board of Supervisors approved a resolution stating the Board's intention to appropriate revenue generated by Proposition I to the COVID-19 Rent Resolution and Relief Fund and a Social Housing Program Fund (File 20-0708).¹ In October 2020, the Board of Supervisors approved two ordinances, amending the Administrative Code to establish two funds, the COVID-19 Rent Resolution and Relief Fund (File 20-0611) and the Housing Stability Fund (File 20-1183), with the intent to deposit a portion of the revenues generated by the increase in the real estate transfer tax to each fund. According to File 20-0611, 50 percent of the increased real property transfer tax revenues in calendar year (CY) 2021 and CY 2022 would be appropriated to the COVID-19 Rent Resolution and Relief Fund for the Mayor's Office of Housing and Community Development (MOHCD) to award grants until March 2023, and according to File 20-1183, increased real property transfer tax revenues would be appropriated to the Housing Stability Fund. Neither ordinance required the appropriation of increased real estate transfer tax revenues to the COVID-19 Rent Resolution and Relief Fund or the Housing Stability Fund.

In April 2021, the Board of Supervisors approved an ordinance appropriating \$20,100,000 from property tax revenues to MOHCD, of which \$10,050,000 was appropriated for rent relief under the Rent Resolution and Relief Fund, and \$10,050,000 was appropriated for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund (File 20-1364). According to Mr. Benjamin McCloskey, MOHCD Deputy Director of Finance and Administration, none of this appropriation has been spent to date.

The proposed FY 2021-22 and FY 2022-23 Annual Appropriation Ordinance (AAO) contains administrative provisions governing the appropriation ordinance. Section 32.1 establishes the Fiscal Cliff Reserve with a proposed amount of \$293,900,000 from FY 2020-21 unassigned fund balance for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-23 two-year budget (File 21-0671). The AAO is still pending Board of Supervisors approval.

¹ In File 20-1183, the Housing Stability Fund was originally titled the Social Housing Program Fund.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund in FY 2021-22.

Funds in the Rent Resolution and Relief Fund may be used to provide grants to landlords who agree to waive unpaid rent related to COVID-19. Such grants may cover up to 50 percent of unpaid rent (and up to 65 percent for landlords with 10 or fewer units) up to \$3,000 per unit per month. Landlords must waive all unpaid rent for the period covered by the grant. As stated above, the previous \$10,500,000 appropriation to the Rent Resolution and Relief Fund has not been expended yet. Additionally, the City has received \$91,637,829 in federal funding for rent relief and will likely receive other funding from the March 2021 American Rescue Plan Act that was provided to the State of California but has not yet been allocated to county governments. According to Mr. McCloskey, MOHCD will not expend any local funds towards rent relief until all federal funding is exhausted, which he estimates will be in Summer 2022.

Funds in the Housing Stability Fund would be used for the acquisition, preservation, and development of affordable social housing. Administrative Code Section 10.100-78 defines social housing developments as restricted for households up to 80 percent of the median income in a zip code where the project is located, with the restriction lasting for the useful life of the property or at least 99 years. According to Mr. McCloskey, MOHCD has not determined which projects would be funded by the Housing Stability Fund.

FISCAL IMPACT

The proposed ordinance would appropriate \$128,300,000 from the Fiscal Cliff Reserve to MOHCD, of which (a) \$64,150,000 would be appropriated for rent relief under the Rent Resolution and Relief Fund; and (b) \$64,150,000 would be appropriated for the acquisition, creation and operation of affordable, social housing under the Housing Stability Fund in FY 2021-22. If the Board of Supervisors approves the appropriation of \$128,300,000 from the Fiscal Cliff Reserve, the remaining Fiscal Cliff Reserve balance would be \$165,600,000.

POLICY CONSIDERATION

San Francisco voters approved Proposition I in November 2020, increasing the real estate transfer tax to 5.5 percent on transactions of \$10 million to \$25 million and to 6 percent on transactions of \$25 million or more. According to the Controller's Revenue Letter, revenues attributable to Proposition I are \$127.0 million in FY 2021-22 and \$135.7 million in FY 2022-23, or \$101.6 million and \$108.5 million, respectively, net of baseline funding requirements.

As noted above, MOHCD has not expended any of the federal or local funds for rent relief. The total funds accumulated to date for rent relief are approximately \$101,687,829, as shown in Table 1 below.

Table 1: MOHCD Rent Relief Funding Available

Funding Source	Amount
December 2020 Federal COVID Relief – Direct to City	\$26,209,983
December 2020 Federal COVID Relief – via State	28,216,657
March 2021 Federal COVID Relief – Direct to City	37,211,189
Supplemental Appropriation (File 20-1364)	10,050,000
Total Funding Available	\$101,687,289

Approval of the proposed ordinance would increase the available funding for rent relief to approximately \$165,837,289. San Francisco will likely also benefit from additional funding from the March 2021 American Rescue Plan Act that has not yet been administered by the State of California. As stated above, MOHCD will not expend any local funds towards rent relief until all federal funding is exhausted, which Mr. McCloskey estimates will be in Summer 2022.

Grants from the COVID-19 Rent Resolution and Relief Fund would cover 50 to 65 percent of unpaid rent but landlords receiving grants must waive all unpaid rent. However, grants funded by federal funding, through the State Program, would cover up to 80 percent of unpaid rent incurred between April 2020 and March 2021. Furthermore, grants funded by the City Program, using direct federal funding, would cover up to 100 percent of rent for six months starting in April 2021.

The existence of the State and City rental assistance programs, which cover up to 80 percent and 100 percent, respectively, of unpaid rent for households making up to 80 percent of Area Median Income (AMI), may disincentivize landlords to accept grants funded by the COVID-19 Rent Resolution and Relief Fund.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.