

BOARD of SUPERVISORS



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## MEMORANDUM

TO: Harvey Rose, Budget and Legislative Analyst  
Eric D. Shaw, Director, Mayor's Office of Housing and Community  
Development  
Shireen McSpadden, Executive Director, Department of Homelessness and  
Supportive Housing

FROM: John Carroll, Assistant Clerk, Government Audit and Oversight Committee,  
Board of Supervisors

DATE: July 7, 2021

SUBJECT: LEGISLATION INTRODUCED

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The Board of Supervisors' Government Audit and Oversight Committee has received the following hearing request, introduced by Supervisor Mar on June 29, 2021:

**File No. 210781**

**Hearing on the findings and recommendations of the Budget and Legislative Analyst's performance audit of the Mayor's Office of Housing and Community Development's policies and procedures for affordable housing development and preservation; and requesting the Budget and Legislative Analyst, Mayor's Office of Housing and Community Development, and the Department of Homelessness and Supportive Housing to report.**

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Offices of Chair Preston and Supervisor Mar  
Severin Campbell, Office of the Budget and Legislative Analyst  
Menard Nicholas, Office of the Budget and Legislative Analyst  
Amanda Guma, Office of the Budget and Legislative Analyst  
Eugene Flannery, Mayor's Office of Housing and Community Development  
Amy Chan, Mayor's Office of Housing and Community Development  
Dylan Schneider, Department of Homelessness and Supportive Housing  
Emily Cohen, Department of Homelessness and Supportive Housing

**Performance Audit of the  
Mayor's Office of Housing and Community  
Development's Policies and Procedures for Affordable  
Housing Development and Preservation**

**Prepared for the**

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

**by the**

**San Francisco Budget and Legislative Analyst**

**June 28, 2021**

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

1390 Market Street, Suite 1150, San Francisco, CA 94102  
(415) 552-9292 FAX (415) 252-0461

June 28, 2021

Supervisor Dean Preston, Chair, Government Audit and Oversight Committee 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 Chair Preston and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this Performance Audit of the Mayor's Office of Housing and Community Development's (MOHCD) Policies and Procedures for Affordable Housing Development and Preservation. In response to a motion adopted by the Board of Supervisors in July 2019 (Motion No. 19-108), 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 generally accepted government auditing standards as set forth in the U.S. Government Accountability Office's Yellow Book, 2017 Revision. Those standards require that we plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained for this report provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate MOHCD's policies and procedures for the development or preservation of affordable housing. Our audit report includes six findings and 12 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.

The Director of the Mayor's Office of Housing and Community Development provided a written response to our audit report on June 24, 2021. In the written response, the MOHCD Director agreed or partially agreed with eight of the 12 recommendations and disagreed with three recommendations and partially disagreed with one recommendation.

- The MOHCD Director disagreed with our recommendations to (1) establish a geographic equity policy for new housing development that considers how affordable housing needs by neighborhood will be assessed and monitored, and how geography will be considered in funding determinations for developer-selected sites; and provides strategies to acquire land in prioritized neighborhoods, and to partner with the Planning Department to address

potential constraints; (2) establish and document a policy and set of criteria that states how geography will be considered when evaluating preservation and acquisition projects for funding, and how MOHCD will monitor and address preservation needs by neighborhood; and (3) annually report on the geographic equity and racial equity metrics and goals established by the geographic equity policy and racial equity policy. According to the MOHCD Director's written response, "site acquisitions cannot be evaluated through a geographic lens alone, but must meet funding and principles, maximize the affordable housing units delivered, and align with overarching housing plans and strategies. We are committed to pursuing site opportunities in high opportunity areas and are excited to identify creative models through a newly proposed housing innovation fund. The objective of the fund is to explore alternative options for affordable housing in neighborhoods with limited site opportunities". The MOHCD Director further states in the written response that he "disagrees with the need to create a standalone geographic equity policy".

We continue to recommend that MOHCD establish a geographic equity policy and annually report on the metrics and goals. As noted on page 14 of our report, most affordable housing development in the past five years has been in the City's eastern neighborhoods, due in part to the availability of land in those neighborhoods and zoning restrictions in other neighborhoods. While the two Notices of Funding Availability (NOFAs) issued since 2015 for the allocation of 2015 and 2019 General Obligation Affordable Housing Bond funds included criteria to promote geographic equity, MOHCD does not have documented criteria similar to the criteria developed for the 2019 General Obligation Affordable Housing Bond to inform other methods of site selection or future NOFAs. Also, as noted on page 17 of our report, other jurisdictions have developed or otherwise considered the implementation of a geographic equity policy for allocation of affordable housing investment. A formal policy promoting equitable distribution of housing is important to ensure that the City invests in neighborhoods lacking affordable housing.

- The MOHCD Director partially disagreed with our recommendation to establish standard guidelines for minimum requirements for respondents (including standard qualifying project criteria by project type), number of days to respond, project selection criteria, selection panel composition, and conflict of interest controls. According to the Director's written response, the Director agreed with the recommendation to establish standard guidelines for selection panel composition but did not agree with the need to create standardized solicitation and selection criteria. According to the written response, "While we support making the process more accessible and increasing the pool of applicants, standardization would not be an effective approach toward those goals. Requiring standard minimum requirements, number of days to respond and project selection criteria will not solve the capacity challenges that organizations face in applying and competing for projects. Solicitations have varying criteria because housing needs and priorities are both specific and iterative".

Supervisor Preston, Chair, Government Audit and Oversight Committee  
Members of the Board of Supervisors  
June 28, 2021

We continue to recommend that MOHCD establish standard guidelines for affordable housing solicitations and selection criteria. As noted on page 37 of our report, solicitation timelines and project requirements are typically determined by project managers and are based on previous similar solicitations, subject to approval by senior staff; response times, developer experience, and other qualifying criteria vary by solicitation. Not having documented guidelines for solicitation development and evaluation, developer selection can appear subjective. As we state on page 42 of our report, MOHCD could strengthen the process by formalizing and documenting its policies regarding solicitation development and evaluation. Federal and local procurement guidelines recommend that agencies ensure consistency and clarity in solicitation development practices and promote open and fair competition.

We would like to thank the MOHCD Director, and the MOHCD Housing and Small Sites Program staff for their time and effort in producing this report. The Director's formal written response to the audit and recommendations, including the list of MOHCD accomplishments, is attached to this report beginning on page 59.

Respectfully submitted,



Severin Campbell, Director  
Budget and Legislative Analyst's Office

Cc:

President Walton  
Supervisor Chan  
Supervisor Haney  
Supervisor Mandelman  
Supervisor Mar  
Supervisor Melgar  
Supervisor Peskin  
Supervisor Ronen  
Supervisor Safai  
Supervisor Stefani

Mayor Breed  
Director, Mayor's Office of Housing & Community Development  
Clerk of the Board of Supervisors  
Controller  
Mayor's Budget Director  
City Attorney's Office

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## Executive Summary

The Board of Supervisors directed the Budget and Legislative Analyst’s Office to conduct a performance audit of the Mayor’s Office of Housing and Community Development (MOHCD) through a motion (M19-108) passed on July 9, 2019, focusing on MOHCD’s policies and procedures for the development or preservation of affordable housing. 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.

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## Affordable Housing Needs and Production

San Francisco housing costs are expensive, and many households spend a significant share of their income on rent or housing costs. In 2019, approximately 33 percent of households did not have “affordable” rent or housing costs, meaning they spent 30 percent or more of their household income on housing costs. Further, 17 percent of renters were “extremely rent-burdened,” meaning they spent 50 percent or more of their household income on rent.

Between 2006 and 2019, the City:

- Produced nearly 10,000 units of affordable housing, including through the City’s Inclusionary Housing Program and through deed-restricted affordable units, mostly in 100 percent affordable housing developments
- Preserved 1,956 affordable units by providing financing to nonprofit housing organizations to acquire and rehabilitate existing residential buildings.

The Mayor’s Office of Housing and Community Development’s (MOHCD) guides and coordinates the City’s policies and programs to produce and preserve affordable housing. MOHCD administers federal, state, and local financing programs to develop new affordable housing and preserve existing affordable units, and monitors the long-term affordability and physical conditions of the MOHCD-assisted affordable housing portfolio.

MOHCD administers most of the City’s funding sources for affordable housing acquisition and development. These funds include Affordable Housing General Obligation Bonds; Development Impact Fees; and General Fund, including the Housing Trust and surplus Education Revenue Augmentation Fund (ERAF) revenue). MOHCD also receives and administers state and federal funds, such as Community Development Block Grants.

MOHCD provides loans to nonprofit and for-profit entities to acquire and rehabilitate affordable housing through the Small Sites Program, the Downtown Neighborhood Preservation Fund, and the Preservation and Seismic Safety (PASS) program. These programs were created to protect long-term affordable

housing in existing properties and prevent evictions and rent increases for low- to moderate-income tenants.

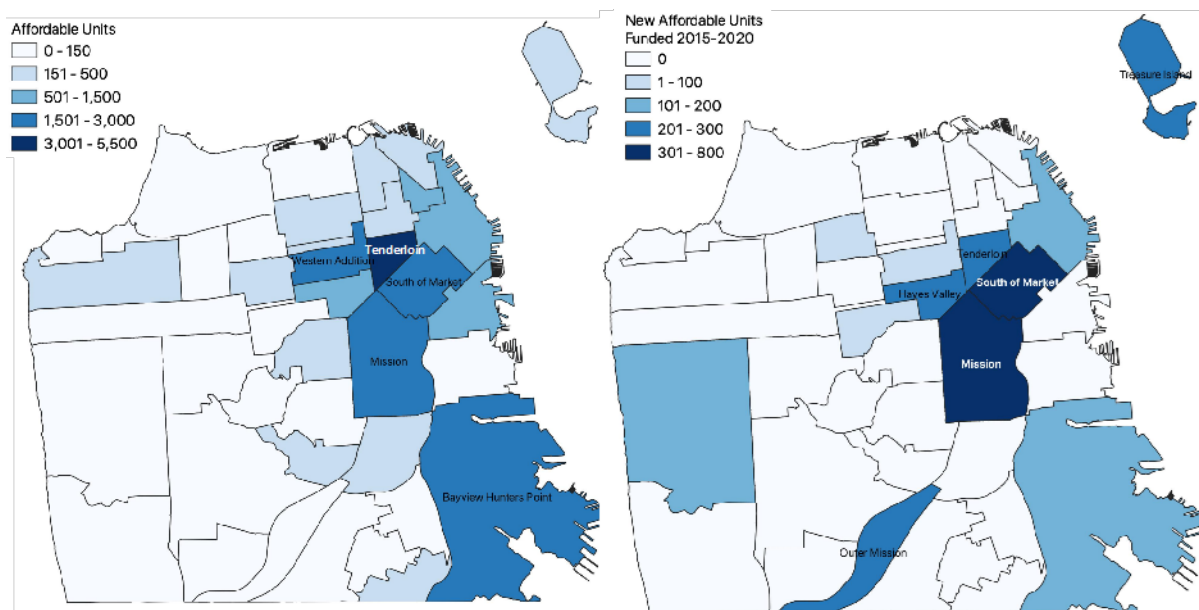
Through the HOPE SF program, MOHCD and the Office of Community Investment and Infrastructure (OCII), the successor agency to the former Redevelopment Agency, have partially financed the redevelopment of four public housing projects, including Hunters View, Alice Griffith, Potrero Terrace/Annex, and Sunnydale-Velasco. Once redevelopment is completed across all projects, the program will have built 3,000 new market rate and affordable units and preserved 2,000 units.

Since 2015, the City has also financed the rehabilitation and preservation of former public housing projects that were converted to nonprofit ownership through the City’s Rental Assistance Demonstration Program (RAD), a HUD initiative. As mentioned above, the City has preserved 3,327 units through the RAD program.

## Uneven Geographic Distribution of Affordable Housing Development and Preservation

Affordable housing in the past five years has been primarily built in neighborhoods most conducive to development – specifically, neighborhoods that are zoned for multi-family housing and where density bonuses can be effectively leveraged. New construction funded since 2015 has occurred primarily in the Mission, South of Market (SoMa), the Tenderloin, and Hayes Valley, while current stock is concentrated in the Tenderloin, SoMa, and the Western Addition as shown in Exhibit i below

**Exhibit i: MOHCD Affordable Housing Units Funded 2015-2020**

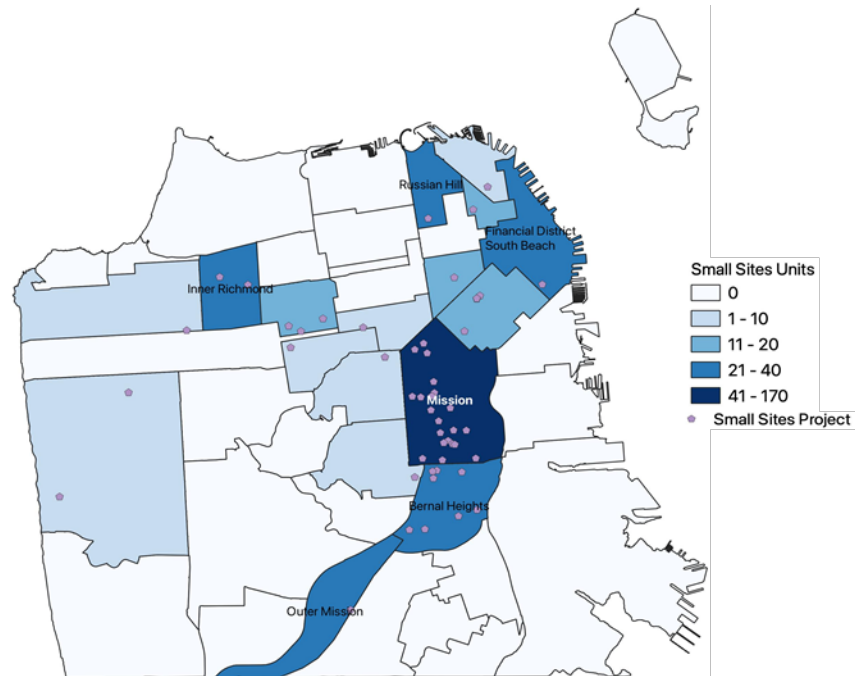


Source: Budget and Legislative Analyst Analysis  
 Note: Does not include HOPE SF



More than one-half of Small Sites projects are located in the Mission and Bernal Heights neighborhoods, as shown in Exhibit ii below.

**Exhibit ii: Small Sites Projects and Units by Neighborhood, As of January 2021**



Source: Budget and Legislative Analyst Analysis

## MOHCD does not have a formal geographic or racial equity policy for affordable housing development

The City does not have a formal geographic or racial equity or prioritization policy that guides the site selection process for affordable housing development. Most affordable housing development in the past five years has been in the City's eastern neighborhoods, due in part to the availability of land in those neighborhoods and zoning restrictions in other neighborhoods limiting multifamily housing development.

The two Notices of Funding Availability (NOFAs) issued since 2015 for the allocation of 2015 and 2019 General Obligation Affordable Housing Bond funds included criteria to promote geographic equity. According to the 2019 General Obligation Affordable Housing Bond report, \$15 million of bond funds are dedicated to site acquisition and pre-development of new housing projects in neighborhoods with limited affordable housing production, or in neighborhoods with both limited affordable housing production and a high number of housing units removed from protected status. MOHCD does not have documented criteria, similar to the criteria developed for the 2019 General Obligation Affordable Housing Bond, to inform other methods of site selection or future NOFAs. A formal policy promoting

equitable distribution of housing is important to ensure that the City invests in neighborhoods lacking affordable housing.

In addition, MOHCD has incorporated racial equity criteria into the most recent new development solicitation but has not yet developed a formal policy describing how racial equity will be included in future solicitations or site selection processes. Addressing historical racial inequities is a policy priority of the City, which established the Office of Racial Equity in 2019 to address inequities and promote equitable outcomes.

The MOHCD Director should:

- Establish a geographic equity policy addressing how geography will be considered in funding determinations
- Continue to develop the Racial Equity Action Plan
- Provide annual reporting on the geographic equity and racial equity metrics

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## While MOHCD includes geographic criteria in funding notices, the limited number of developers and selection process results in the geographic concentration of small sites projects

The Small Sites Program is intended to prevent displacement and preserve affordable housing throughout the City. While several City neighborhoods have had housing units removed from affordability protections, Small Sites projects are disproportionately located in the Mission and Bernal Heights neighborhoods. The concentration of Small Sites program funding in the Mission and Bernal Heights is due both to lack of developer capacity in other neighborhoods and the need for a more formal strategy to disperse funding across the City. While MOHCD has established criteria around how to consider geography in its Small Sites Notices of Funding Availability (NOFA), Small Sites projects are selected on a first-come, first-serve basis, and funding decisions are based on project costs and feasibility rather than geography.

The most recent Small Sites funding solicitation set aside funding to develop nonprofit capacity and encourage more acquisition and preservation projects in underserved neighborhoods. However, this is one-time funding, and there is not currently a plan for how to sustain this effort in the long-term.

The MOHCD Director should:

- Evaluate and recommend to the Board of Supervisors options for ongoing capacity building for Small Sites developers
- Establish and document a policy and set of criteria that clearly states how geography will be considered when evaluating preservation and acquisition projects

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## A limited number of affordable housing developers respond to solicitations for new development, limiting competitiveness of solicitations and awards

While MOHCD has recently taken steps to increase the capacity of smaller community-oriented developers, affordable housing projects have largely been awarded to a small number of developers. Between 2015 and 2019, MOHCD awarded 71 percent of projects to just three developers, and the number of unique developers selected for projects has declined over time. Encouraging participation from a broad array of developers, including those that may represent different geographic areas of the City and Communities of Color, can help expand affordable housing development to communities that are underserved, increase the competitiveness of solicitations, and help bring down costs.

The MOHCD Director should:

- Formalize and document MOHCD’s strategy for building capacity for smaller, community-oriented organizations, especially those led by Persons of Color.

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## MOHCD does not have documented guidelines to ensure that solicitation timelines and project requirements for new development are consistent by types of projects and solicitations and understood by developers

The Mayor’s Office of Housing and Community Development does not have documented guidelines to ensure that solicitation timelines and project requirements are consistent by types of projects and solicitations and understood by developers and the public. According to interviews with MOHCD staff, project managers typically determine these elements based on previous similar solicitations, subject to approval by senior staff. Solicitations for affordable housing projects are not uniform, with solicitation response times, and developer experience, including previous projects demonstrating qualifications, varying between solicitations. For example, in our review of 16 solicitations between 2015 and 2019, the average number of days to respond varied from 49 to 94; while different solicitation types require different responses from developers (i.e., a Request for Proposals may require more detailed proposals than a Request for Qualifications), MOHCD does not have documented guidelines for the time needed to advertise and respond to each type of solicitation. For experience, some solicitations required that the developer meet all qualifying project criteria within one project while other solicitations allowed for meeting qualifying project criteria across projects. “Experience” was also defined either as the number of qualifying projects in excess of the minimum, or more generally as “experience completing projects on time and on budget, experience working with the target population, experience with the specific construction type”. By not having documented guidelines for solicitation development and evaluation, developer selection can appear subjective. In addition, minimum experience requirements above what

is necessary to demonstrate the developer’s capacity for completing a potential project can create barriers to broader participation, especially for smaller community-oriented developers.

MOHCD also does not have written guidelines regarding selection panel composition or conflict of interest controls. In our detailed review of four solicitations, one selection panel member had also drafted the solicitation; while MOHCD changed its practice in 2018 to ensure separation between individuals drafting the solicitation documents and serving on the selection panel, this policy is not documented. MOHCD requires selection panel participants to indicate any potential conflicts of interest, either personal or professional, prior to evaluating proposals, but does not have a documented process to manage or resolve potential conflicts of interest when they are identified, such as previous donations made or past work with any member of the proposed development team.

The MOHCD Director should:

- Establish standard guidelines for minimum requirements for respondents (including standard Qualifying Project criteria by project type), number of days to respond, project selection criteria, selection panel composition, and conflict of interest controls

## Evaluation of Small Sites and Downtown Neighborhood Preservation projects is more informal and less documented than for new development projects, risking inconsistency and subjectivity in project selection

MOHCD’s primary acquisition and preservation programs include the Small Sites Program (Small Sites) and Downtown Neighborhood Preservation Fund (Downtown Neighborhood), which operate as “over-the-counter” funding solicitations where applicants can apply for funding for eligible projects on a rolling basis. MOHCD’s process for reviewing and evaluating acquisition and preservation projects for the two programs does not have consistent formal documentation, and most projects are not formally scored against the evaluation criteria in program funding solicitations. While the funding solicitations specify that MOHCD will score potential projects based on established criteria when MOHCD receives more than one application during the same time period, the solicitations do not detail how MOHCD will evaluate applications when only one application is received at a time, which is the case for most proposed projects. In addition, MOHCD maintains limited documentation for withdrawn and denied applications, making it difficult to assess why some projects are approved while others are denied or withdrawn.

The MOHCD Director should:

- Formalize and document MOHCD’s application review process for potential Small Sites and Downtown Neighborhood projects
- Develop a consistent table or rubric to include in the loan evaluation report
- Update future Small Sites and Downtown Neighborhood NOFAs to ensure requirements reflect the materials needed; and (b) ensure that the application review process description reflects MOHCD practices

## The City's subsidy to Small Sites projects often exceeds the maximum subsidy per unit set by the Small Sites Program Guidelines

The Small Sites Program Guidelines sets a maximum on the City subsidy to Small Sites projects of \$400,000 per unit. A little under half of the projects that received funding or a letter of support for future Small Sites funding exceeded the maximum subsidy amount for their building size, and six projects exceeded the program maximum of \$400,000 per unit. While the Program Guidelines state that MOHCD may waive any portion of the Guidelines or make exceptions on a case-by-case basis, MOHCD has regularly made such exceptions for projects that exceed subsidy Guidelines. While the total per-unit cost of preserving an affordable housing unit through the Small Sites Program is less than the per-unit cost of new housing development, Small Sites projects have fewer non-City funding sources than larger affordable housing developments, resulting in higher per-unit costs for the City.

The Small Sites Program Guidelines were established in 2016 and are considered outdated; MOHCD is currently working with program stakeholders to revise the Small Sites Program Guidelines and is considering further increases to the subsidy per unit limits. MOHCD should develop explicit policy goals for the Small Sites Program that guide decision-making around the appropriate levels of City subsidy per unit, and in particular the goals should state the importance of dedicating resources to purchase smaller buildings.

The MOHCD Director should:

- Evaluate and report to the Board of Supervisors on the appropriate levels of City subsidy per unit for Small Sites projects
- Update the Small Sites Program Guidelines regarding the City's subsidy per unit

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We would like to thank the MOHCD Director, and the MOHCD Housing and Small Sites Program staff for their time and effort in producing this report. The Director's formal written response to the audit and recommendations, including the MOHCD list of accomplishments, is attached to this report beginning on page 59.

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## Introduction

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the Mayor's Office of Housing and Community Development through a motion (M19-108) passed on July 9, 2019.

## Scope

The scope of this performance audit includes the Mayor's Office of Housing and Community Development's policies and procedures for the development or preservation of affordable housing.

## 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:

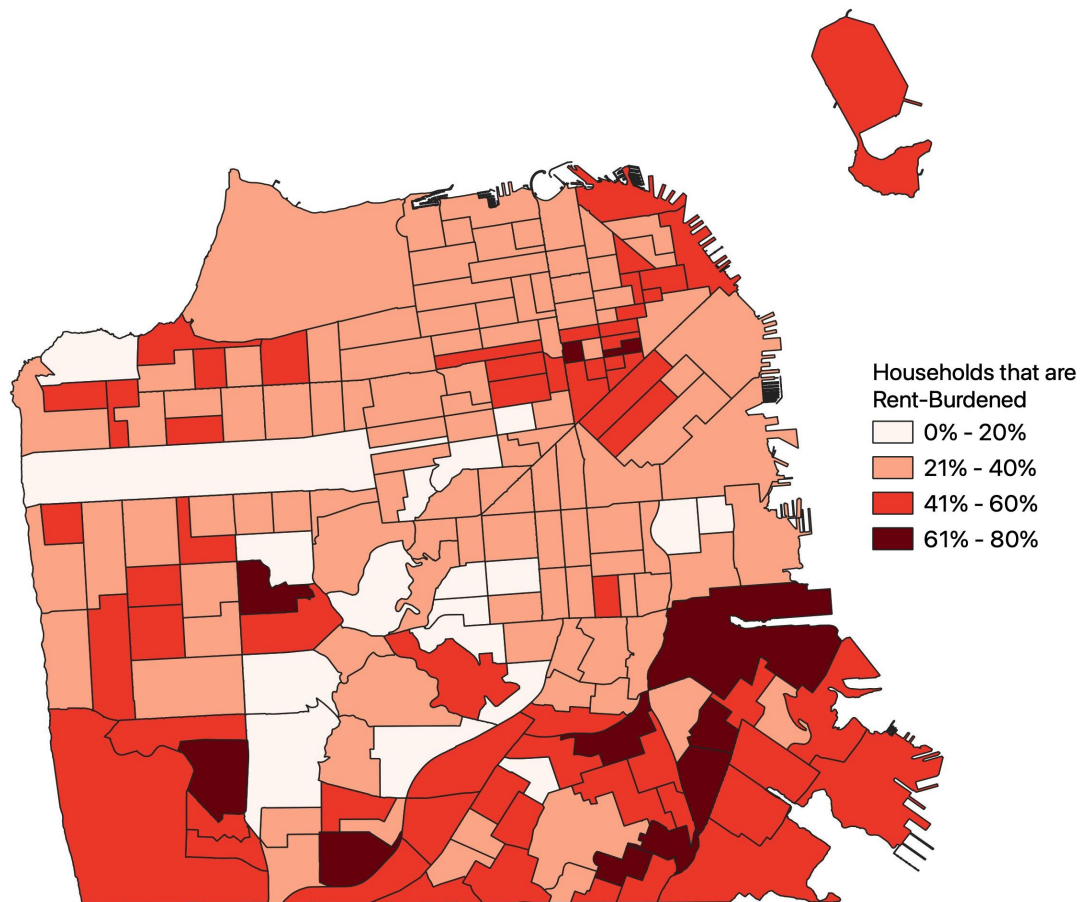
- Conducted interviews with management and other staff at the Mayor's Office of Housing and Community Development (MOHCD)
- Reviewed the Department's policies and procedures; annual progress reports, strategic plan, and other long-term planning documents; and Affordable Housing Loan Committee staff reports
- Analyzed affordable housing development and preservation data for projects funded between 2015 and 2020
- Reviewed all funding solicitations issued since 2015 and awards
- Conducted an in-depth review of four funding solicitations for new development, including interviews with developers, selection panel participants, and MOHCD project managers
- Conducted an extensive literature review to identify best practices related to affordable housing development and preservation
- Submitted a draft report, with findings and recommendations, to MOHCD on April 23, 2021; and conducted an exit conference with MOHCD on May 19, 2021
- Submitted the final draft report, incorporating comments and information provided in the exit conference, to MOHCD on June 8, 2021

We would like to thank MOHCD and the Planning Department for their assistance during this audit process.

## Affordable Housing Needs and Production

San Francisco housing costs are expensive, and many households spend a significant share of their income on rent or housing costs. In 2019, approximately 33 percent of households did not have “affordable” rent or housing costs, meaning they spent 30 percent or more of their household income on housing costs. Further, 17 percent of renters were “extremely rent-burdened,” meaning they spent 50 percent or more of their household income on rent. Exhibit 1 below shows the percent of renters with unaffordable rent by census tract.

**Exhibit 1: Percent of Households with Unaffordable Rent, 2019**



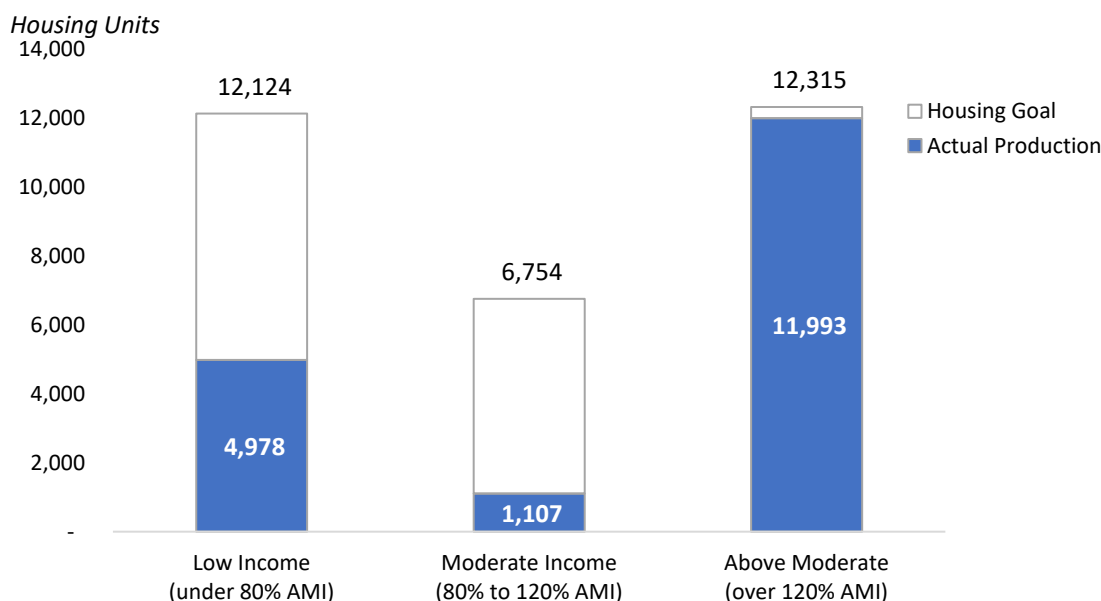
Source: 2019 American Community Survey 5-Year Estimates

## Affordable Housing Production Goals

The State of California requires regional Councils of Government to develop Regional Housing Needs Plans that establish how many housing units, including affordable units, each community must plan to produce. The Association of Bay Area Governments (ABAG), the regional Council of Government for the San Francisco Bay Area, determines housing production needs for the City of San Francisco. San Francisco establishes its plan to meet its share of the regional housing need through the Housing Element of the General Plan.

According to the 2014 Housing Element, San Francisco met 58 percent of its housing goals under the 2007-2014 Regional Housing Needs Plan. While the City met 97 percent of its housing goals for above moderate-income households—those making 120 percent or more of Area Median Income (AMI), it only met 41 percent of its housing goals for low-income households and 16 percent of its housing goal for moderate income households. Exhibit 2 below shows the housing goals and actual production by household income for the 2007 to 2014 period.

**Exhibit 2: 2007-2014 Housing Goals and Actual Production**



Source: 2014 Housing Element

According to the 2015-2022 Regional Housing Needs Plan, San Francisco needs to produce 28,869 additional housing units. As of 2019, the City has met 40 percent of its goal for units affordable to very low-, low- and moderate-income households (6,542 out of 16,333 units produced) while it has already exceeded its goal for units affordable to above moderate-income households. If affordable housing production continues at the same rate for the remaining three years in the period as the first five years, the City will not meet its production goals for very low-, low- and moderate-income households. Exhibit 3 below shows the housing goals by household income for the 2015 to 2022 period and actual production as of 2019.



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**Exhibit 3: 2015-2022 Housing Production Goals by Household Income and Actual Production, as of 2019**

<b>Household Income</b>	<b>2015-2022 Housing Production Goal</b>	<b>Actual Production as of 2019</b>	<b>Percent of Goal Met as of 2019</b>
Very Low (under 50% AMI)	6,234	3,679	59%
Low (50-79% AMI)	4,639	1,806	39%
Moderate (80-120% AMI)	5,460	1,057	19%
Above Moderate (over 120% AMI)	12,536	15,472	123%
<b>Total</b>	<b>28,869</b>	<b>22,014</b>	<b>76%</b>

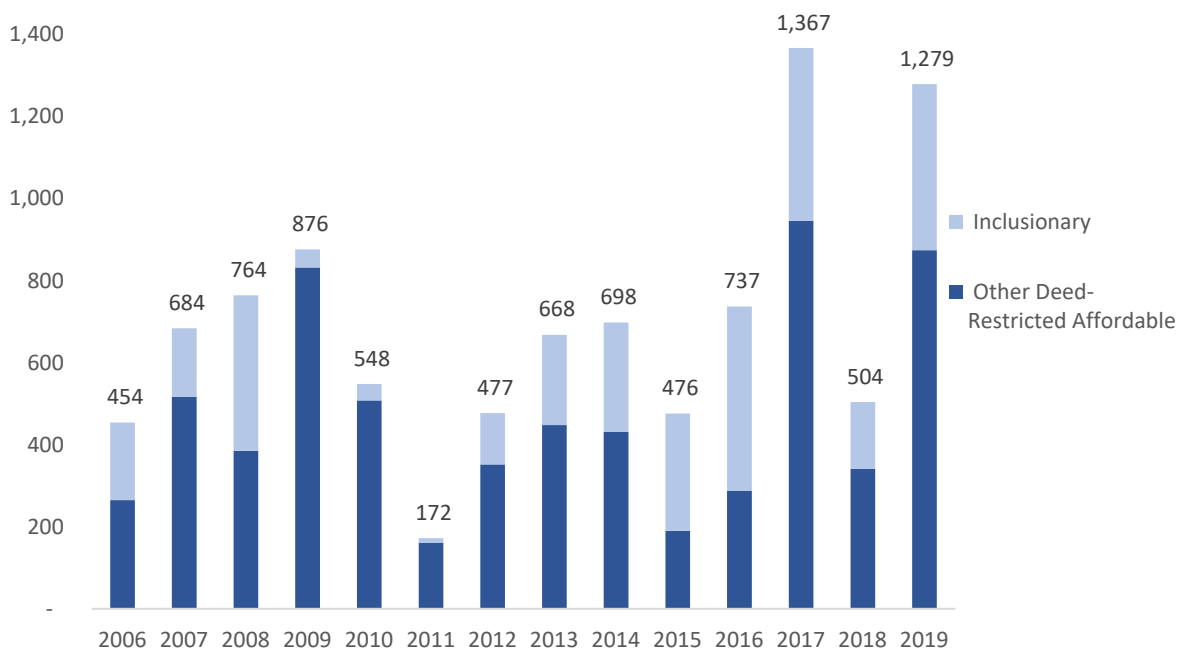
Source: 2014 Housing Element and 2019 Housing Inventory Report

## Affordable Housing Production

Between 2006 and 2019, affordable housing production varied from a low of 172 housing units affordable to low- and moderate-income households (“affordable units”) in 2011 to a high of 1,367 affordable units in 2017. On average, the City produced 693 affordable units per year, including 226 housing units through the City’s Inclusionary Housing Program and 467 deed-restricted affordable units, mostly in 100 percent affordable housing developments. For-profit developers generally develop affordable units through the Inclusionary Housing Program (described below). For-profit and nonprofit affordable housing developers develop 100 percent affordable housing projects. Exhibit 4 below shows historical affordable housing production, including inclusionary and other deed-restricted affordable units.

### Exhibit 4: Affordable Housing Production, 2006-2019

#### Housing Units



Sources: San Francisco Planning Department, *2020 Affordable Housing Funding, Production, and Preservation White Paper*; 2019 Housing Inventory Report

## Inclusionary Housing Program

The City's Inclusionary Housing Program (Planning Code Section 415) requires developers of residential developments with at least 10 units to construct on-site or off-site affordable units, pay an in-lieu fee, or donate land to the City for affordable housing development (option only available for developments in the Eastern Neighborhoods). The current program began in 2002, and the rates were modified in 2007, 2012, and 2017. The requirements of the program depend on the building size, neighborhood, and whether it is a rental property or tenants will own their own units. For example, rental developments with at least 25 units must provide on-site affordable units equal to 20 percent (as of January 2020) of the number of market rate units, provide off-site affordable units equal to 30 percent of the number of market rate units, or pay an in-lieu fee.

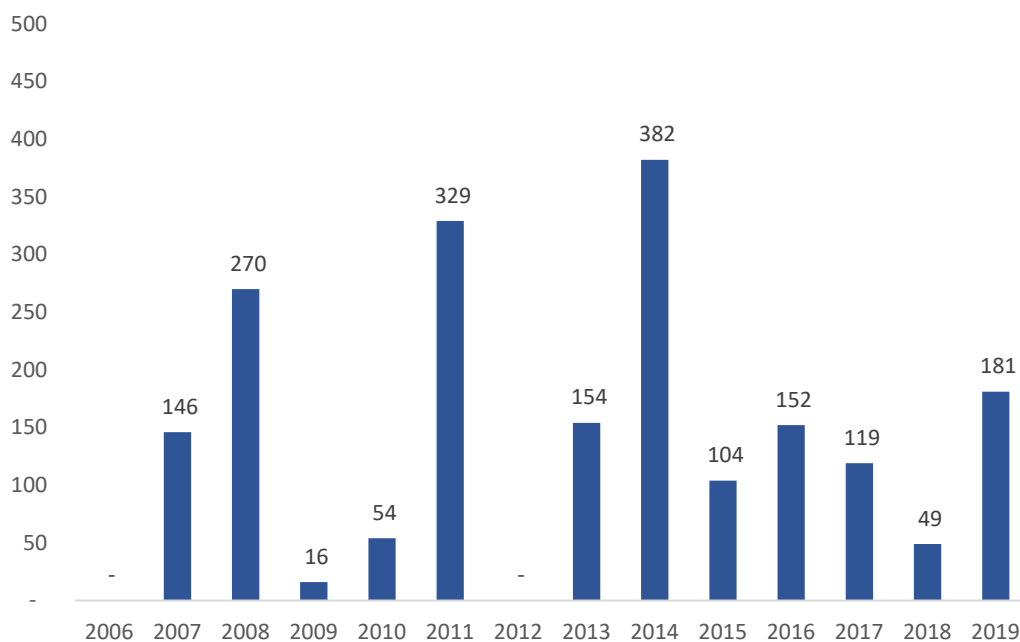
## Affordable Housing Preservation

Between 2006 and 2019, the City preserved 1,956 affordable units (an average of 140 units per year) by providing financing to nonprofit housing organizations to acquire and rehabilitate existing residential buildings. Since 2015, the City has also financed the rehabilitation and preservation of former public housing projects that were converted to nonprofit ownership through the City's Rental Assistance

Demonstration Program (RAD), resulting in the rehabilitation of an additional 3,327 units. Exhibit 5 below shows historical affordable housing preservation, excluding units rehabilitated through the RAD program.

### Exhibit 5: Affordable Housing Units Acquired and Rehabilitated, 2006 -2019

#### Housing Units

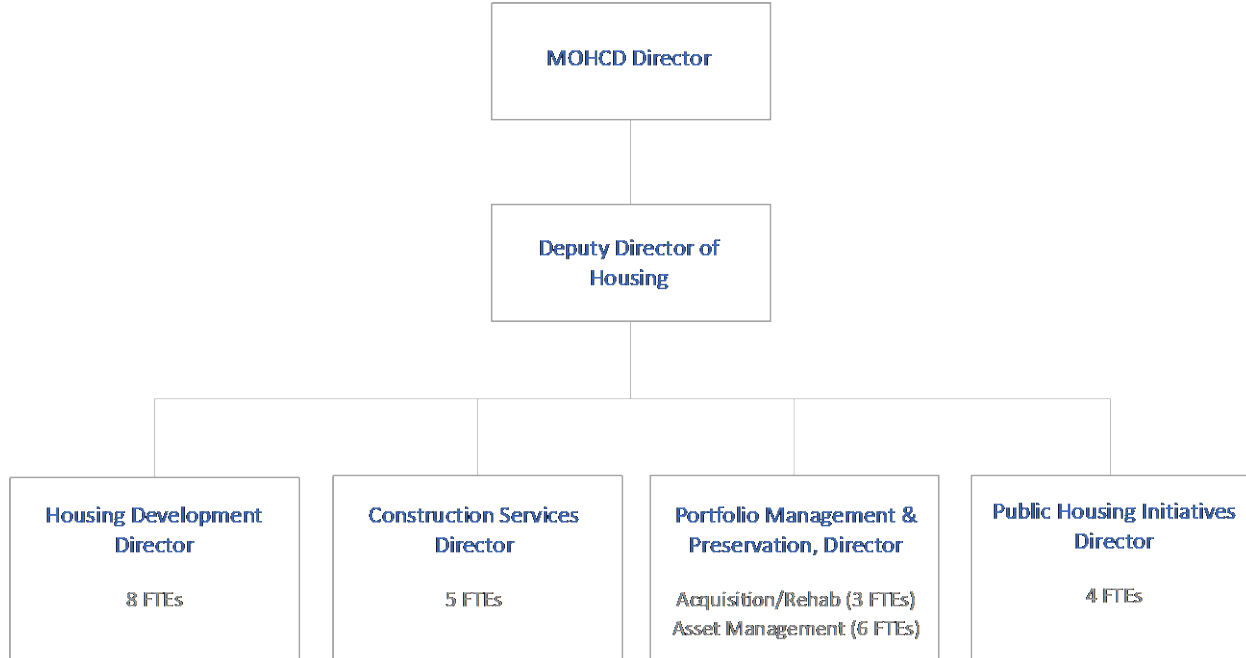


Sources: San Francisco Planning Department, *2020 Affordable Housing Funding, Production, and Preservation White Paper*; 2019 Housing Inventory Report

## Mayor's Office of Housing and Community Development

The Mayor's Office of Housing and Community Development's (MOHCD) Housing Division guides and coordinates the City's housing policies, administers federal, state, and local financing programs to develop new affordable housing and preserve existing affordable units, and monitors the long-term affordability and physical conditions of the MOHCD-assisted affordable housing portfolio. The Housing Division has 31 budgeted positions and four program areas, as shown in Exhibit 6 below.

## Exhibit 6: MOHCD Housing Division Programs and Organization, 2020



Source: MOHCD Organization Chart

## MOHCD Strategies and Objectives

MOHCD's 2016-2020 Strategic Plan identifies five strategies related to Housing, Community Development, and Policy and Legislation. These strategies include:

- **Strategy 1:** Create permanently affordable housing
- **Strategy 2:** Preserve affordable housing
- **Strategy 3:** Improve access to affordable housing
- **Strategy 4:** Promote self-sufficiency for all and protect rights
- **Strategy 5:** Foster healthy communities and neighborhoods

## Consolidated Plan

MOHCD, the Office of Economic and Workforce Development (OEWD), and the Department of Homelessness and Supportive Housing jointly prepared the five-year 2020-2024 Consolidated Plan required by the U.S. Department of Housing and Urban Development (HUD) for the expenditure of federal grants for community and affordable housing development. The Consolidated Plan establishes the following five objectives:

- **Objective 1:** Families and individuals are stably housed
- **Objective 2:** Families and individuals are resilient and economically self-sufficient
- **Objective 3:** Communities have healthy physical, social, and business infrastructure
- **Objective 4:** Communities at risk of displacement are stabilized
- **Objective 5:** City works to eliminate the causes of racial disparities

In addition, MOHCD has identified five target populations based on findings from its community engagement process. The five target populations include:

1. Extremely and very low-income households
2. Households with barriers to access to opportunities
3. Households at risk of displacement
4. Households experiencing a legacy of exclusion
5. Households destabilized by systemic trauma

## Acquisition and Preservation Programs

MOHCD provides loans to nonprofit and for-profit entities to acquire and rehabilitate affordable housing through the Small Sites Program, the Downtown Neighborhood Preservation Fund, and the Preservation and Seismic Safety (PASS) program. These programs were created to protect long-term affordable housing in existing properties and prevent evictions and rent increases for low- to moderate-income tenants.

The City created the Small Sites Program in 2014 to provide loans for the acquisition and rehabilitation of multi-family rental buildings of five to 25 units. MOHCD funded \$87.3 million in loans through the 2014 Notice of Funding Availability (NOFA) and issued an updated NOFA in 2019 for an additional \$37 million in loans.

The Downtown Neighborhood Preservation Fund was created in 2018 with similar goals of the Small Sites Program using funds from the sale of Oceanwide Center at 50 First Street. The \$33 million funding source preferences buildings over 26 units to complement the Small Sites Program.

The PASS Program was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by \$260.7 million in general obligation bonds.

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## Rehabilitation and Redevelopment of Public Housing

Through the HOPE SF program, MOHCD and the Office of Community Investment and Infrastructure, the successor agency to the former Redevelopment Agency (OCII) have partially financed the redevelopment of four public housing projects, including Hunters View, Alice Griffith, Potrero Terrace/Annex, and Sunnydale-Velasco. Once redevelopment is completed across all projects, the program will have built 3,000 new market rate and affordable units and preserved 2,000 units.

Since 2015, the City has also financed the rehabilitation and preservation of former public housing projects that were converted to nonprofit ownership through the City's Rental Assistance Demonstration Program (RAD), a HUD initiative. As mentioned above, the City has preserved 3,327 units through the RAD program.

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## Affordable Housing Funding

Affordable housing developers leverage a variety of funding sources to finance the development and preservation of affordable housing, including loans or grants provided by the City, commercial loans, tax-exempt bonds, and federal or state tax credits. Most funding sources serve low-income households earning up to 80 percent of AMI, and only a few serve moderate-income households earning up to 120 percent of AMI. We provide a summary of major funding sources below.

## Major Federal and State Funding Sources

- The **Low-Income Housing Tax Credit (LIHTC)** program is a federal tax subsidy that provides investors with credits to reduce their tax liability in exchange for equity contributions to finance affordable housing projects. The California Tax Credit Allocation Committee awards tax credits to projects, including 9 percent annual tax credits, which are competitive and provide a bigger subsidy, and 4 percent annual tax credits, which provide a smaller subsidy and are often paired with tax-exempt bonds. LIHTC is typically the largest source of financing for affordable housing development projects.
- **Other federal** sources include project-based vouchers (Section 8), the HOME Investment Partnerships Program (HOME), Community Development Block Grants (CDBG), Housing Opportunities for Persons with AIDS (HOPWA), and other programs.
- **Other state** sources include the Affordable Housing and Sustainable Communities (AHSC) grant program, voter-approved general obligation bonds that fund the Multifamily Housing Programs (MHP), the Infill Infrastructure Grant Program (IIG), and the Transit Oriented Development (TOD) Housing Program, and other programs.

## City Funding Sources

MOHCD administers most of the City's funding sources, including state and federal funds received by the City, except for previously approved funds and projects of the former San Francisco Redevelopment

Agency. The Office of Community Investment and Infrastructure administers these previously approved funds and projects. We describe major revenue sources administered by MOHCD below.

- **Development Impact Fees** include in-lieu fees paid by residential developers under the Inclusionary Housing Program, jobs-housing linkage fees paid by commercial developers, and other fees.
- **Affordable Housing General Obligation Bonds** approved by voters include the 2015 and 2019 affordable housing bonds and the Preservation and Seismic Safety Bond.
- **General Fund** revenue includes allocations required by voter mandates, such as Housing Trust Fund allocations, as well as discretionary allocations by elected officials, such as one-time allocations from surplus Education Revenue Augmentation Fund (ERAF) revenue.
- MOHCD also receives and administers **state and federal funds**, such as Community Development Block Grants.

#### *Local Operating Subsidies for Supportive Housing*

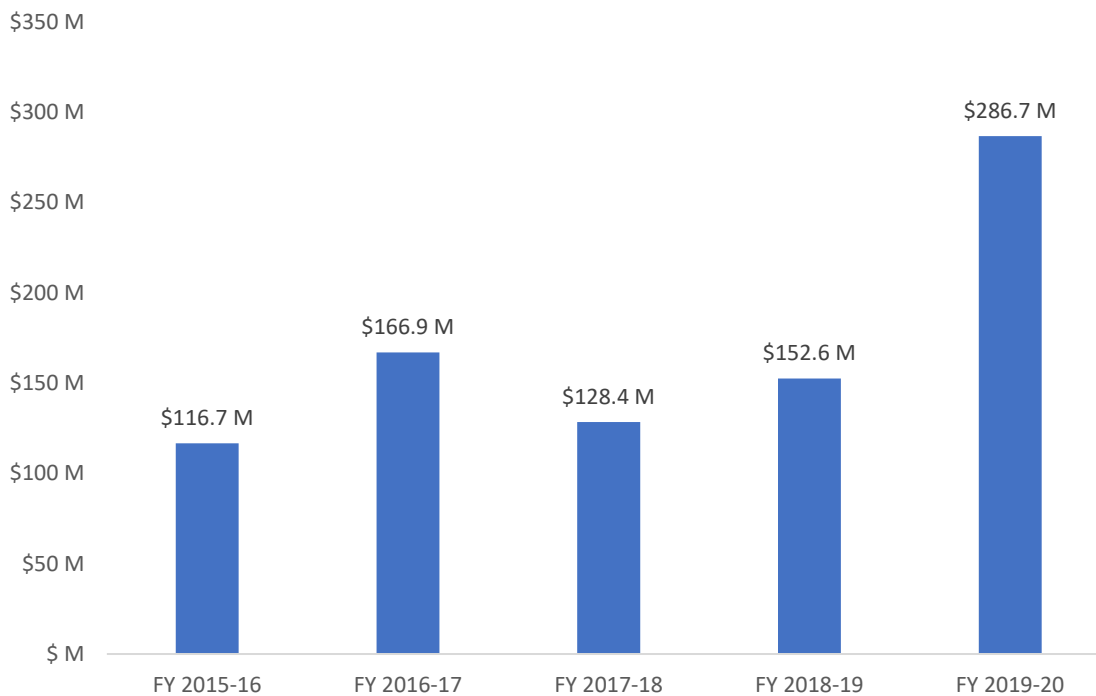
Due to the low rents charged to supportive housing tenants and the additional cost of on-site supportive services, rents and other project revenues are often not sufficient to cover operating and maintenance costs of supportive housing. Through the Local Operating Subsidy Program (LOSP), established in 2006, the City provides subsidies to supportive housing projects. In FY 2019-20, LOSP program expenditures totaled \$10.2 million.

## MOHCD Affordable Housing Grants and Loans

In FY 2019-20, MOHCD expenditures on multifamily housing grants and loans totaled \$286.7 million and were equal to approximately 62 percent of MOHCD's total budget. Expenditures on multifamily housing grants and loans increased significantly in FY 2019-20 compared to the previous four years due to increases in revenue from general obligation bonds and surplus ERAF allocations, as shown in Exhibit 7 below.

### Exhibit 7: MOHCD Expenditures on Multifamily Housing Grants and Loans

Expenditures (in millions)



Source: MOHCD Annual Progress Reports

## Citywide Affordable Housing Loan Committee

The Citywide Affordable Housing Loan Committee reviews loans and grants that exceed \$10 million 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. In FY 2019-20, MOHCD closed on 15 multifamily development loans totaling \$38.6 million and 11 acquisition loans totaling \$51.1 million under this delegated authority.

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 based on residual receipts generated by rents and other project revenues. To defer loan payments, borrowers must ensure the continuing affordability of housing units.



## Land Banking and Ownership

### *Land Banking*

MOHCD does not finance or purchase property for the purpose of land banking, although MOHCD acquires some property through “land dedication” in which developers may dedicated land to the City for affordable housing development in accordance with City Planning Code requirements. In awarding financing to affordable housing projects, the Affordable Housing Loan Committee evaluates the total project financing sources and feasibility of the affordable housing project moving forward.

The loan agreements between MOHCD and respective affordable housing sponsors contain standard provisions for the conveyance of property if the sponsor does not obtain sufficient financing for the affordable housing development by a certain date. According to these standard provisions, the City may require either that the project sponsor: (i) transfer the fee title to the property to another nonprofit corporation, limited partnership or limited liability company designated by the City with the intention that the property be developed for affordable housing; or (ii) convey the fee title to City for an amount equal to the outstanding principal balance of the Loan, plus accrued and unpaid interest.

### *City Acquisition of Affordable Housing Land*

MOHCD established a policy in 2012 that the City would acquire the land for affordable housing projects and ground lease the land to the affordable housing sponsor. This policy applies to new housing development but not to housing preservation, in which MOHCD provides financing to an affordable housing sponsor to acquire an existing building to preserve the long-term affordability and prevent displacement of the existing tenants. According to MOHCD, the policy to acquire land for affordable housing development has not previously been included in MOHCD underwriting guidelines for project financing, but MOHCD will include the policy in the update to underwriting guidelines, currently underway.

MOHCD decided not to require City ownership for affordable housing preservation because non-profit developers are purchasing at-risk buildings in the private market and must move quickly to complete the transaction. Preservation projects are often purchased with private loans through the Housing Accelerator Fund or other lender and refinanced with financing from MOHCD; although MOHCD is financing these loans after the property has been removed from the private market, MOHCD considers the transaction costs for the City to acquire the preservation properties to be high, and instead places long-term affordability restrictions on the property. In response to requests from the Board of Supervisors, MOHCD has amended loan documents to include the City’s right to first refusal in the event the preservation project should be sold at a future date.

## Site and Sponsor Selection Process

### *Site Selection*

Some affordable housing projects financed by the City are built on sites identified by affordable housing developers and selected by MOHCD through a competitive Notice of Funding Availability (NOFA), but the

majority are built on sites provided by the City. The City acquires sites for affordable housing through the following methods:

- **Surplus Public Lands** owned by the City or other public agency can be dedicated for affordable housing development.
- **Direct Acquisitions** are sites purchased directly from private landowners.
- **Land Dedication** sites are provided by developers to comply with various City requirements and are also provided by other public, private, and philanthropic sources.

#### *Sponsor Selection*

MOHCD selects project sponsors through competitive solicitation processes. When MOHCD has identified a site for affordable housing development, it issues a Request for Qualifications (RFQ) and selects a project sponsor among respondents based on identified selection criteria. When MOHCD has funding available that is not for the development of a particular site, it issues a NOFA. MOHCD may select multiple project sponsors among respondents to the NOFA based on identified selection criteria.

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## 1. Policies to Promote Equitable Development

The City does not have a formal geographic or racial equity or prioritization policy that guides the site selection process for affordable housing development. Most affordable housing development in the past five years has been in the City's eastern neighborhoods, due in part to the availability of land in those neighborhoods and zoning restrictions in other neighborhoods limiting multifamily housing development. The two Notices of Funding Availability (NOFAs) issued since 2015 for the allocation of 2015 and 2019 General Obligation Affordable Housing Bond funds included criteria to promote geographic equity. According to the 2019 General Obligation Affordable Housing Bond report, \$15 million of bond funds are dedicated to site acquisition and pre-development of new housing projects in neighborhoods with limited affordable housing production, or in neighborhoods with both limited affordable housing production and a high number of housing units removed from protected status. MOHCD does not have documented criteria, similar to the criteria developed for the 2019 General Obligation Affordable Housing Bond, to inform other methods of site selection or future NOFAs. A formal policy promoting equitable distribution of housing is important to ensure that the City invests in neighborhoods lacking affordable housing.

In addition, MOHCD has incorporated racial equity criteria into the most recent new development solicitation but has not yet developed a formal policy describing how racial equity will be included in future solicitations or site selection processes. Addressing historical racial inequities is a policy priority of the City, which established the Office of Racial Equity in 2019 to address inequities and promote equitable outcomes.

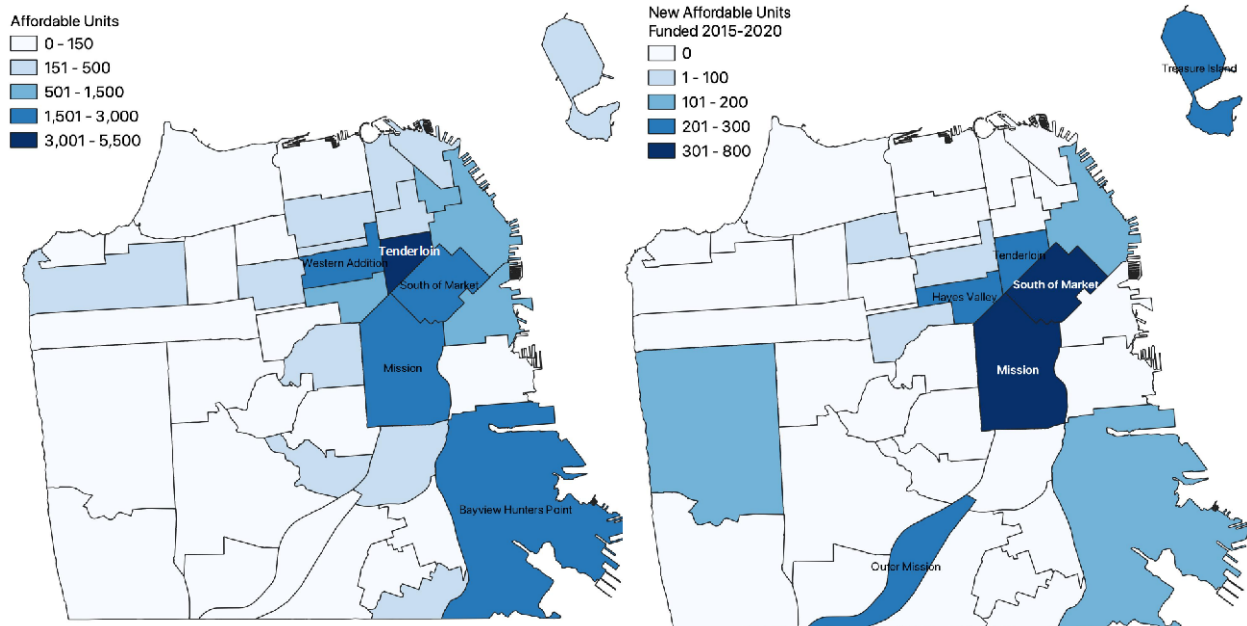
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### MOHCD does not have a formal geographic or racial equity policy for affordable housing development

#### Affordable Housing Development Concentration in the Eastern Neighborhoods

Affordable housing projects funded in the last five years have been concentrated in the east side of the City. Affordable housing has been primarily built in neighborhoods most conducive to development – specifically, neighborhoods that are zoned for multi-family housing and where density bonuses can be effectively leveraged. Overall, five neighborhoods in the eastern part of city hold 60 percent of all of the City's affordable units, according to the Planning Department's 2018 Housing Needs and Trends Report. New construction funded since 2015 has occurred primarily in the Mission, South of Market (SoMa), the Tenderloin, and Hayes Valley, while current stock is concentrated in the Tenderloin, SoMa, and the Western Addition as shown in Exhibit 1.1 below. Without coordinated efforts by MOHCD and the Planning Department to promote affordable housing development in other parts of the City, new affordable housing will continue to be built in the same neighborhoods.

**Exhibit 1.1: MOHCD Affordable Housing Units Funded 2015-2020**



Source: Budget and Legislative Analyst Analysis

Note: New Affordable Units reflect new units funded by MOHCD and do not include HOPE SF projects (the City's initiative to rehabilitate public housing projects) or other rehabilitation projects

MOHCD does not have a formal citywide geographic equity or prioritization policy that guides the site selection process for affordable housing development. The two Notices of Funding Availability (NOFAs) issued since 2015 for the allocation of 2015 and 2019 General Obligation Affordable Housing Bond funds included criteria to promote geographic equity. According to the 2019 General Obligation Affordable Housing Bond report, \$15 million of bond funds are dedicated to site acquisition and pre-development of new housing projects in neighborhoods with limited affordable housing production, or in neighborhoods with both limited affordable housing production and a high number of housing units removed from protected status; however, if these funds are not allocated within four years, the funds will be allocated to other low-income housing projects.

MOHCD does not have documented criteria, similar to the criteria developed for the 2019 General Obligation Affordable Housing Bond, to inform other methods of site selection or future NOFAs. Without a formal policy to guide MOHCD's site selection activities, MOHCD risks contributing to existing geographic inequities in affordable housing development or inconsistency in its efforts to promote equitable development. Other jurisdictions, such as the City of Portland, have adopted frameworks for determining the geographic distribution of affordable housing. A formal policy promoting equitable distribution of housing is important to ensure that the City invests in neighborhoods lacking affordable housing.

## Geographic Equity Criterion in Notices of Funding Availability (NOFA)

### 2016 Prop A NOFA Geographic Equity Criterion

The 2016 Proposition A NOFA (2016 Prop A NOFA), which awarded up to \$9 million in predevelopment funding for affordable housing projects located anywhere in the City, and \$6 million for projects located in the Mission District (bounded by Division, Potrero, Cesar Chavez and Guerrero Streets), included criteria that awarded points based on the extent to which proposed projects “served highly impacted neighborhoods” (defined as neighborhoods impacted by displacement and high rent burden), as well as “historically under-resourced neighborhoods” (which refers to neighborhoods with “low levels of investment” of affordable housing).<sup>1</sup> In total, proposals could score a maximum of 140 points between the two geographic criteria out of 700 total points possible, or 20 percent.

The seven panelists evaluating six project proposals had difficulty applying the geographic criteria from the NOFA and needed additional guidance from MOHCD staff. The category of “service to highly-impacted neighborhoods” was, according to the Panel Evaluation Summary Memo, difficult for panel members to judge and MOHCD staff had to provide panelists with additional data points and confer with panelists about ways to approach this category.<sup>2</sup> Panelists also needed additional guidance for evaluating the category of “serves under-resourced neighborhood,” and MOHCD staff again provided panelists with data and ways to approach this category subsequent to their initial scoring.<sup>3</sup>

Ultimately, the selection panel recommended four projects for funding, including 4840 Mission in the Excelsior (District 11), 250 Laguna Honda in Forest Hill (District 7), 500 Turk St in the Tenderloin (District 6), and 1990 Folsom in the Mission (District 9). Two of these projects scored maximum points in the “serves highly-impacted neighborhoods” category (4840 Mission and 1990 Folsom), and one of these projects scored maximum points in the “serves under-resourced neighborhood” category (250 Laguna Honda).

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<sup>1</sup> Proposition A was a ballot measure passed by San Francisco voters in November 2015 to authorize the City to issue up to \$310 million in general obligation (GO) bonds to fund affordable housing, including \$50 million specifically for the Mission neighborhood.

<sup>2</sup> Panelists ended up using two metrics – the number of eviction notices filed per renter households in the neighborhood between 2010 and 2016, and the percentage of households in each neighborhood with “Severe Housing Burden,” defined by HUD as a household experiencing a severe rent burden, and/or overcrowding, and/or lacking complete plumbing facilities.

<sup>3</sup> To evaluate this category, panelists considered the amount of MOHCD funding disbursed in the neighborhood since 2000, as well as the investment of other City affordable housing funds. Neighborhoods were then ranked, and projects scored accordingly.

## 2019 Prop A NOFA Geographic Equity Criterion

“Geographic equity” is included as an evaluation criterion in the 2019 Proposition A NOFA (2019 Prop A NOFA), which was issued by MOHCD in December 2019 for \$30 million in predevelopment funding for projects located in five supervisorial districts to address Proposition A’s mandate to increase access to housing for vulnerable populations in areas that have been historically underserved by affordable housing production.<sup>4</sup> The solicitation defines “geographic equity” as prioritizing investments in districts that “are experiencing a loss of affordability through vacancy de-control of rent stabilized housing stock, Ellis Act evictions, Owner Move-ins and other forms of displacement, or have not benefitted significantly from new affordable housing production.” As part of the geographic equity criterion, the 2019 Prop A NOFA limits funding to projects in Districts 1,2,4,7 and 8.

According to MOHCD’s response to questions on the solicitation, MOHCD limited funding to these districts based on the Planning Department’s 2019 Housing Balance Report.<sup>5</sup> MOHCD considered supervisorial districts with the least net new affordable housing built from 2009 to 2019 (Districts 2, 3, 4, 7, 9 and 11) and the districts with the most units removed from protected status (Districts 1, 4, 8, 9, and 11). MOHCD factored in the current pipeline and determined that the districts with the least total affordable units projected were Districts 1, 2, 4, 7 and 8. Districts 9 and 11 were excluded because they had more units in the pipeline (800 entitled and 131 permitted units) and in earlier stages of planning.

Exhibit 1.2 below shows the housing balance calculation by supervisorial district, including affordable housing units built and units removed from protected status. Among these districts, those projected to lose more affordable units than they gained (i.e. those with negative housing balances) were Districts 1, 2, 4, 7, 8, and 11. Overall, the City was projected to gain a net of 10,306 affordable units over the period, which is equal to approximately 21 percent of total net new housing units added.

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<sup>4</sup> Proposition A was a ballot measure passed by San Francisco voters in November 2019 to authorize the City to issue up to \$600 million in general obligation (GO) bonds to fund affordable housing.

<sup>5</sup> The Housing Balance Report, authorized through Ordinance No. 53-15 passed by the Board of Supervisors in 2015, requires the Planning Department to monitor and report on the Housing Balance between new market rate housing and new affordable housing production.

**Exhibit 1.2: Cumulative Housing Balance Calculation, 2009 Q3 – 2019 Q2**

Sup. District	Net New Affordable Housing Built	Acquisitions & Rehabs and Small Sites Completed	Units Removed from Protected Status	Total Entitled and Permitted Affordable Units	Total Net New Units Built	Total Entitled & Permitted Units	Cumulative Housing Balance*
1	227	21	(511)	-	387	264	-40%
2	79	25	(305)	9	978	363	-14%
3	132	45	(306)	258	822	623	9%
4	18	-	(503)	10	52	159	-225%
5	618	710	(348)	205	1,392	1,545	40%
6	3,479	1,462	(145)	2,285	16,274	11,242	26%
7	113	-	(247)	-	549	1,120	-8%
8	284	74	(614)	34	1,366	462	-12%
9	107	196	(653)	800	832	1,931	16%
10	1,921	-	(305)	1,349	4,798	4,654	31%
11	39	21	(409)	131	144	410	-39%
<b>Total</b>	<b>7,017</b>	<b>2,554</b>	<b>(4,346)</b>	<b>5,081</b>	<b>27,594</b>	<b>22,773</b>	<b>21%</b>

Source: 2019 Housing Balance Report

\* The Housing Balance, expressed as a percentage, is determined by dividing the cumulative total of all units 0-120% AMI (very low income to moderate income) minus the lost protected units, by the total number of net new housing units within the Housing Balance Period.

While the 2019 General Obligation Bond Affordable Housing report allocated funds specifically to new housing projects in neighborhoods with limited affordable housing production, or in neighborhoods with both limited affordable housing production and a high number of housing units removed from protected status, geographic criteria for allocation of other affordable housing funds is not documented.

## Other Methods of Site Selection

Of the 30 new development projects that received affordable housing funding between 2015 and 2020, eight were selected through the 2015 and 2019 NOFAs for allocation of General Obligation Affordable Housing Bond funds, and the other 22 were selected through other methods, such as the use of surplus City property for housing development. Exhibit 1.3 below shows the method of site selection for 30 new development projects funded between 2015 and 2020.

**Exhibit 1.3: Site Selection Method for New Development Projects, 2015-2020**

<b>Site Selection Method</b>	<b>Total Number</b>	<b>Percent of Total</b>
NOFA (site proposed by developer)	8	27%
Other Method	22	73%
Public Land/Surplus Property	7	23%
Public Land for Housing	6	20%
Development Agreement	3	10%
Land Dedication	3	10%
Direct Acquisition/Housing Opportunity	2	7%
Redevelopment Agency Acquisition	1	3%
<b>Total</b>	<b>30</b>	<b>100%</b>

Source: MOHCD

Surplus public land, developer land dedication, and other site selection may determine geographic distribution, but the City has an opportunity to consider how a geographic equity policy would impact their strategy for acquiring properties through direct acquisition.<sup>6</sup>

## Geographic Equity Policies in Other Jurisdictions

Other jurisdictions have developed or otherwise considered the implementation of a geographic equity policy for allocation of affordable housing investment. The City of Portland developed a Housing Bond Policy Framework that outlines the basis for their existing geographic equity practices, defined and informed by data and an extensive community engagement process to help further define priorities. Portland's "Vulnerability and Opportunity Analysis" methodology incorporates multiple public data sources to determine location priorities for affordable development. Location priorities included:

- Balancing of investments throughout the geographic area of the city
- Prevention of displacement and gentrification (particularly in neighborhoods that have a high concentration of Communities of Color)
- Increasing affordable housing opportunities outside of the city's Urban Renewal Areas (which are the only areas served by the city's primary housing funding, due to location restrictions)
- Supporting economically and racially diverse neighborhoods in areas of higher opportunity (defined as areas at risk of gentrification and displacement, but with access to education, food, transportation, health services, economic opportunities and greenspaces).

<sup>6</sup> In 2004, the City adopted the Surplus City Property Ordinance, which requires that surplus public land be identified and evaluated for potential use for homeless housing. It also established a Citizens Advisory Committee to explore potential affordable housing development at sites determined to be surplus. The City's Public Land for Housing Program is a collaboration between the Planning Department, the Office of Economic and Workforce Development, MOHCD, and the City's enterprise agencies to identify and redevelop publicly-owned land into affordable housing.



When considering building and land acquisition opportunities, the extent to which the proposed development meets the City of Portland’s geographic goals is part of the evaluation process. The property profiles for potential acquisitions submitted to the Bond Property Review Committee for consideration included the neighborhood Vulnerability and Opportunity Scores, as well as neighborhood demographics and profiles on neighborhood schools.

Additionally, a 2017 analysis of fair housing issues in the City of Los Angeles recommended that the city and the Los Angeles Housing Authority develop a geographic distribution policy based on geospatial analysis of U.S. Department of Housing and Urban Development (HUD) and local data, including the existing concentration of affordable housing, income levels, homeless Point-in-Time count totals, and the degree of ethnic and racial segregation, to determine the distribution of permanent supportive housing development. Based on the 2017 analysis, the Los Angeles City Council drafted new permanent supportive housing program regulations to encourage greater geographic distribution for supportive housing projects. Some of the revisions include increasing available funding for proposed projects located in “High Resource Areas,” as well as prioritizing applications for projects located in higher-resourced neighborhoods.<sup>7</sup> The revised regulations also prioritize projects that are located in close proximity to health services and transportation.

## Affordable housing development is constrained by zoning requirements and the availability of land

### Impact of Zoning on New Affordable Housing Development

The location of affordable housing development is constrained by zoning requirements and the availability of lots of sufficient size. According to the 2014 Housing Element, construction of affordable housing typically requires a lot size of at least 0.3 acres (or 40 units per project) to achieve economies of scale, and projects with on-site services require a minimum of 90 units per site. As of 2014, half of San Francisco’s land that can be developed was zoned for residential use, and approximately three-quarters of that land was zoned for single family and two-unit housing. Areas with low permitted housing densities (less than 14 units per acre) are concentrated in the west and south sides of the City, and areas with medium to high permitted housing densities (54 to 283 units per acre) are concentrated on the east side of the City.

In addition, affordable housing development capacity is currently concentrated in neighborhoods covered under the Neighborhood Area Plans. The zoning controls, density bonuses, and availability of larger lots in neighborhoods covered under the Neighborhood Area Plans encourage affordable housing production

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<sup>7</sup> Defined as the Highest, High and Moderate resource areas/census tracts based on the California Department of Housing and Community Development’s (HCD) and the California Tax Credit Allocation Committee’s (TCAC) Opportunity Mapping Tool.

in the Eastern Neighborhoods<sup>8</sup>, Market & Octavia, and Central SoMa. On the west side of the City, little development has occurred because there has not been a similar rezoning effort and there are very few sites that meet the lot size requirement according to Planning Department staff.

## Land Dedication

Land dedication is an important tool for MOHCD to acquire affordable housing sites that has largely been limited to the eastern parts of the City. Developers may provide land to MOHCD for affordable housing development to comply with various City requirements, and these sites have historically been located in the Eastern Neighborhoods and Central SoMa. Residential development projects located in the Eastern Neighborhoods can meet the City's Inclusionary Housing requirements by providing the City with land to develop affordable housing rather than paying a fee or providing below market rate units directly.<sup>9</sup> During the rezoning process that occurred under the Neighborhood Area Plans, potential land dedication sites for affordable housing were identified to try and foster the production of affordable housing, according to Planning Department staff.

Non-residential development projects located anywhere in the City can also provide land as a way to meet the requirements of the Jobs-Housing Linkage Fee.<sup>10</sup> However, this method of fulfilling the Jobs-Housing Linkage Fee requirements was previously limited to non-residential projects located in Central SoMa until 2019. Seven out of 11 land dedication sites were received through these two programs and are located in the Eastern Neighborhoods or Central SoMa, and the remaining four were received either by special ordinance (in exchange for waiving certain City planning requirements) or through development agreements.

MOHCD has selected developers for four out of 11 land dedication sites. Of MOHCD's seven land dedication sites that are not yet in development, five were included in MOHCD's 2020 Multisite Request for Qualifications (RFQ), which included a streamlined solicitation process for nine distinct sites.

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<sup>8</sup> The Eastern Neighborhoods Plans include area plans for the following neighborhoods: The Mission, East SoMa, Western SoMa, Showplace Square/Potrero, and Central Waterfront

<sup>9</sup> The Inclusionary Housing Program requires developers of new residential projects to pay a fee, provide onsite or offsite Below Market-Rate units, or provide land to the City for affordable housing development (if allowable within the zoning district).

<sup>10</sup> The Jobs-Housing Linkage Fee Ordinance (authorized by Section 413 of the Planning Code) levies a fee on non-residential developments (including large-scale entertainment, hotel, office, and retail spaces) to be used towards new affordable housing development. The purpose of the fee is to mitigate the negative impacts of the City's high ratio of jobs-to-housing units, which has historically been the highest in the Bay Area. Source: San Francisco Planning Code, Sec. 413.1.

## MOHCD does not have a formal plan for future use of racial equity criteria to determine site selection and solicitation development

While racial equity has been incorporated into MOHCD's most recent solicitation as described below, there is not a formal Racial Equity Policy or other document that outlines how racial equity will be used to guide future solicitation development or site selection decisions. Addressing historical racial inequities is a policy priority of the City, which established the Office of Racial Equity in 2019 to address inequities and promote equitable outcomes. MOHCD has released a draft of its Phase One Racial Equity Action Plan, which is focused on strategies to address internal operations, such as improving equity in recruitment, hiring and retention practices. MOHCD anticipates it will complete its Phase Two plan focused on strategies to promote racial equity within MOHCD's work in the community by the end of 2021. MOHCD should ensure that this plan addresses future solicitation development and affordable housing funding decisions.

In March 2020, the Planning Department released the Housing Affordability Strategies Report, which outlines strategies for addressing historic inequities in community planning, policy development, and housing development. The report recommends that the City adopt various indicators as a way of measuring progress towards improving access to affordable housing for vulnerable populations. Proposed measures of progress include:

- The Black population is increased.
- The populations of other groups that have been decreasing over time are increased (including Native American/American Indian, Filipino, Samoan, and Vietnamese)
- Income, health and educational inequality is minimized between racial groups.
- The proportion of rent-burdened low-and moderate-income households is reduced, without loss of low-and moderate-income households.
- The number and types of evictions, including buyouts, is reduced.
- Income diversity within high-income areas is increased.

MOHCD should consider using the indicators recommended in the Housing Affordability Strategies Report as a way of measuring progress towards reducing racial and social inequities.

## 2020 Multisite Request for Qualifications

The 2020 Multisite RFQ is the first solicitation released by MOHCD to incorporate racial equity capacity as a minimum requirement and as a criterion for evaluation. The goals of the RFQ include:

- Select partners that have the expertise to develop projects that are “responsive to populations disproportionately impacted by systemic racism;”
- “Align each project with the implementation of City policies on anti-displacement, racially inclusive communities;” and
- “Create opportunities for growth of smaller and BIPOC-led organizations in development role or as member of the development team.

The proposal requires respondents to “document [their] capacity to successfully plan, design, and develop racial equity strategies that will lower barriers to obtaining quality affordable housing for communities of color through staff with appropriate experience and capacity.” The solicitation also requires respondents to submit demographic data of the Boards of Directors of member organizations of the Development Team and of the staff of the various organizations of the respondent team. In addition, the RFQ stipulates that respondents would be scored on how the project will help lower barriers to persons of color seeking housing and how the community engagement strategy will address the historical exclusion of persons of color from quality housing.

## Conclusion

The City currently lacks formal geographic equity or racial equity policies to inform solicitation development and site selection for affordable housing. Without formal policies to guide MOHCD’s site selection activities, MOHCD risks contributing to existing inequities in affordable housing development or inconsistency in its efforts to promote equitable development. A formal policy promoting equitable distribution of housing is important to ensure that the City invests in neighborhoods lacking affordable housing.

## Recommendations

The Director of MOHCD should

**Recommendation 1:** Establish a geographic equity policy that addresses the following:

- i. How affordable housing needs by neighborhood will be assessed and monitored;
- ii. How geography will be considered in funding determinations for developer-selected sites, including solicitation minimum requirements and evaluation criteria;
- iii. Strategies to acquire land in prioritized neighborhoods, including possible surplus land identified by other agencies; and
- iv. Strategies to partner with the Planning Department to address potential constraints.

**Recommendation 2:** Continue to develop the Racial Equity Action Plan and ensure it outlines how racial equity will be used to guide future solicitation development, site selection, and funding decisions.

**Recommendation 3:** Provide annual reporting on the geographic equity and racial equity metrics and goals established by the geographic equity policy and racial equity policy.

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## 2. Expanding the Geographic Reach of the Small Sites Program

The Small Sites Program is intended to prevent displacement and preserve affordable housing throughout the City. While several City neighborhoods have had housing units removed from affordability protections, Small Sites projects are disproportionately located in the Mission and Bernal Heights neighborhoods. The concentration of Small Sites program funding in the Mission and Bernal Heights is due both to lack of developer capacity in other neighborhoods and the need for a more formal strategy to disperse funding across the City. While MOHCD has established criteria around how to consider geography in its Small Sites Notices of Funding Availability (NOFA), Small Sites projects are selected on a first-come, first-serve basis, and funding decisions are based on project costs and feasibility rather than geography.

The most recent Small Sites funding solicitation set aside funding to develop nonprofit capacity and encourage more acquisition and preservation projects in underserved neighborhoods. However, this is one-time funding, and there is not currently a plan for how to sustain this effort in the long-term. MOHCD should establish a policy that clearly states how geography is considered in Small Sites project selection and how MOHCD will monitor and address preservation needs by neighborhood.

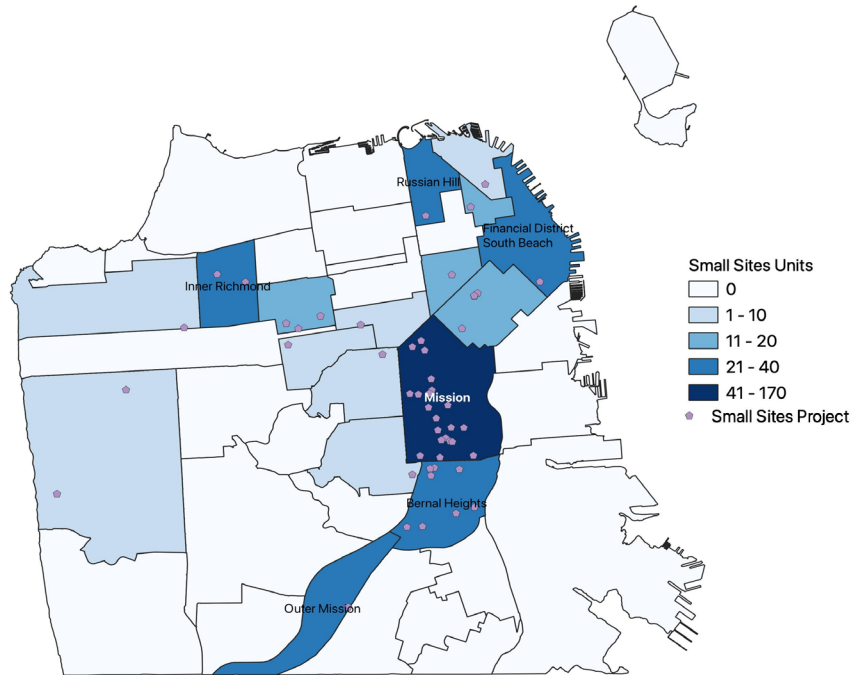
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While MOHCD includes geographic criteria in funding notices, the limited number of developers and selection process results in the geographic concentration of small sites projects

### The Small Sites Program and Projects

In 2014 MOHCD established the Small Sites Program (“the Program”) to address the need for anti-displacement efforts and preservation of affordable housing throughout the City. Small Sites projects are selected on a first-come, first-serve basis in response to two Notices of Funding Availability (NOFAs) issued in 2014 and 2019. More than one-half of Small Sites projects are located in the Mission and Bernal Heights neighborhoods, as shown in Exhibits 2.1 and 2.2 below.

Exhibit 2.1: Small Sites Projects and Units by Neighborhood, As of January 2021



Source: Budget and Legislative Analyst Analysis

The Small Sites Program identified other priority neighborhoods for affordable housing acquisition, including South of Market (SoMA), Inner and Outer Richmond, Sunset/Parkside, Haight Ashbury, North Beach, and Russian Hill. Collectively, these neighborhoods have 12 Small Sites Program locations, or approximately one-fourth of 51 Small Sites Program locations. Exhibit 2.2 below shows number of Small Sites Program locations by neighborhood.

**Exhibit 2.2: Small Sites Projects and Units by Neighborhood, As of January 2021\*\***

Neighborhood	Project Sites	% Total Sites	Units	% Total Units
Mission*	21	41%	162	38%
Bernal Heights	8	16%	37	9%
<i>Subtotal Two Neighborhoods</i>	<i>29</i>	<i>57%</i>	<i>199</i>	<i>47%</i>
South of Market*	4	8%	18	4%
Lone Mountain/USF	3	6%	20	5%
Inner Richmond*	2	4%	28	7%
Sunset/Parkside*	2	4%	10	2%
Castro/Upper Market	1	2%	5	1%
Chinatown	1	2%	17	4%
Financial District/South Beach	1	2%	24	6%
Haight Ashbury*	1	2%	7	2%
Hayes Valley	1	2%	10	2%
Noe Valley	1	2%	6	1%
North Beach*	1	2%	7	2%
Outer Mission	1	2%	21	5%
Outer Richmond*	1	2%	5	1%
Russian Hill*	1	2%	30	7%
Tenderloin	1	2%	20	5%
<b>Total All Neighborhoods</b>	<b>51</b>	<b>100%</b>	<b>427</b>	<b>100%</b>

Source: Budget and Legislative Analyst Analysis

\*Indicates this neighborhood was highlighted as a priority for funding in the 2014 Small Sites Program NOFA.

\*\*Includes 42 projects funded by the City through January 2021, and 9 projects funded by the Housing Accelerator Fund and provided a letter of support indicating that City intends to provide permanent financing at a later date.

The San Francisco Planning Department releases a biannual Housing Balance Report, which monitors new market rate housing and new affordable housing production. The report also provides a summary of units by supervisorial district withdrawn from rent stabilization protections<sup>11</sup> through condo conversion, owner move-in, Ellis Act, demolition or other reasons that are not considered to be the fault of the tenant. Exhibit 2.3 shows the information from the most recent Housing Balance Report released in March 2020.

According to the report, between 2010 and 2019 there were 3,951 units removed from protected status. The report shows that the areas of the City with the largest number of units removed from protected status are the Mission and Bernal Heights, Castro/Glen Park/Noe Valley, Inner and Outer Richmond, and Central and Outer Sunset. While nearly one-half of Small Sites units are developed in the Mission and Bernal Heights neighborhoods, the Castro/Glen Park/Noe Valley had nearly as many units removed from protected status (577 units compared to 600 units in the Mission and Bernal Heights) but represented

<sup>11</sup> San Francisco's Residential Rent Stabilization and Arbitration Ordinance regulates evictions and rents in San Francisco. Almost all residential units are covered by eviction protections, meaning that landlords cannot end a tenancy without a just cause. The Ordinance also provides tenants with access to possible relocation payments for no-fault evictions; ability to report a wrongful eviction; and the ability to report wrongful severance if a landlord attempts to remove core housing services. Rent stabilization protections cover a majority of residential rental units, regulating allowable rent increases for residential units built before June 13, 1979.



only 2 percent of Small Sites units. Similar disproportionate development of Small Sites units existed for the Inner and Outer Richmond, and Central and Outer Sunset, which had 456 and 449 units removed from protection respectively, but Small Sites units developed in the Inner and Outer Richmond and Lone Mountain represented 13 percent of total units, and in the Sunset/Parkside represented 2 percent of total units.

**Exhibit 2.3: Units Removed from Protected Status by District, Q1 2010 – Q4 2019**

District/Neighborhood	Condo Conversion	Demo-lition	Ellis Act	Owner Move-in	Total Units	Percent of Total
District 1: Inner Richmond, Outer Richmond, Lone Mountain	2	20	126	308	456	12%
District 2: Marina, Pacific Heights, Presidio	18	9	71	179	277	7%
District 3: North Beach, Chinatown, Financial District, Russian Hill	6	7	150	110	273	7%
District 4: Central and Outer Sunset, Parkside	-	69	76	304	449	11%
District 5: Haight-Ashbury, Western Addition, Inner Sunset	16	12	73	210	311	8%
District 6: Tenderloin, Civic Center, Soma	-	75	55	11	141	4%
District 7: West Portal, Forest Hill, Parkmerced, Inner Sunset	-	28	55	136	219	6%
District 8: Castro, Glen Park, Noe Valley	26	26	211	314	577	15%
District 9: Mission, Portola, Bernal Heights	8	43	226	323	600	15%
District 10: Bayview, Potrero	2	26	47	199	274	7%
District 11: Excelsior, Outer Mission, Merced	-	59	56	259	374	9%
<b>Total</b>	<b>78</b>	<b>374</b>	<b>1,146</b>	<b>2,353</b>	<b>3,951</b>	<b>100%</b>

Source: San Francisco Planning Department Housing Balance Report, March 2020

According to graduate student research sponsored by the San Francisco Housing Accelerator Fund, as of 2018, 90 percent of Small Sites funded projects were in high-risk neighborhoods, indicating that the projects were targeting areas in need.<sup>12</sup> However, this analysis also found that there was a need to

<sup>12</sup> Engbretson, Laurel, "The Impact of Small Sites on Displacement in San Francisco: An Impact Evaluation Framework for the San Francisco Housing Accelerator Fund," May 1, 2018.

increase outreach to developers and community-based organizations in the Tenderloin, Bayview/Hunters Point, Lakeshore, Outer Sunset, and Outer Richmond neighborhoods.

## 2014 Small Sites NOFA

The 2014 Small Sites NOFA highlighted specific neighborhoods with high rates of displacement and Ellis Act<sup>13</sup> evictions, awarding up to eight points out of 100 possible points for projects located in neighborhoods experiencing high rates of displacement and eviction, as determined by 2009-2013 Rent Board data. The NOFA highlighted the following neighborhoods as having high rates of Ellis Act evictions:

- Inner Mission
- Russian Hill/Polk Gulch
- Castro/Eureka Valley
- Outer Richmond
- Inner Richmond
- North Beach
- Haight-Ashbury/Western Addition tied with Twin Peaks/Glen Park
- Sunset
- Ingleside/Excelsior
- SoMa

Because projects are selected on a first come, first-serve basis, actual geographic distribution of funded projects depends on project submissions in response to the NOFA. According to MOHCD's Annual Progress Report 2018-2019, eight of 14 Small Sites projects funded between FY 2015-16 and FY 2018-19 were in the Mission or Bernal Heights. The other Small Sites projects were SoMa (2), Castro/Upper Market (1), Lone Mountain/USF (1), Noe Valley (1), and North Beach (1).

In the 2019 Small Sites NOFA, MOHCD established a commitment to increasing the geographic reach of Small Sites funded projects to underserved areas of the City while continuing to sponsor projects in the Mission and Bernal Heights. Unlike the 2014 NOFA, the 2019 Program NOFA did not list specific targeted neighborhoods. The 2019 NOFA scoring criteria awarded up to eight points out of 100 possible points for projects that were located in "neighborhoods where low-to-moderate income households are at risk of displacement, or currently underserved by the Small Sites Program", but did not further define which neighborhoods would meet this criteria or what data or information MOHCD would use to evaluate the location of a potential project.

The Program loan evaluation reports submitted to the MOHCD Director for funding approval do not apply consistent criteria to evaluate a site's location or its contribution to increasing the Program's geographic reach. Loan evaluation reports describe the potential site's neighborhood and may mention whether it is

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<sup>13</sup> An Ellis Act eviction occurs when a property owner decides to go out of the residential rental housing business and evicts the current tenants. It is often used by residential rental property owners to change the use of the building. The Ellis Act was passed by the California Legislature in 1986 and is authorized through the California Government Code Section 7060. It requires that municipalities allow property owners to go out of the residential rental housing business.

underserved by the Program, but funding decisions are based on the financial and project considerations other than geography.

## Limited Developer Capacity

There are limited neighborhood nonprofit developers with the knowledge, capacity, and interest to participate in the Small Sites Program, which impacts the geographic reach of the Program. MOHCD management staff report that it is difficult to attract project sponsors to the Program. Because of the small number of units and certain fixed costs to acquiring and rehabilitating affordable housing, it is not as attractive of a program for traditional affordable housing developers compared to new development of large projects where there are greater economies of scale.

One nonprofit in particular, Mission Economic Development Agency (MEDA), has developed significant capacity and expertise in Small Sites development and has sponsored more than 60 percent of all Small Sites projects (34 out of 51 projects) that have received Program funding. Given MEDA's focus on anti-displacement efforts in the Mission and preserving affordable housing in the neighborhood, their sponsorship of projects and the lack of participation by other nonprofits has contributed to geographic concentration of Small Sites projects in the Mission. MEDA has also worked with MOHCD to pursue projects in other parts of the City, such as SOMA and the Outer Sunset, but the majority of their projects have been located in the Mission or Bernal Heights (26 out of 34 projects). Exhibit 2.4 shows Small Sites projects by project sponsor and neighborhood, focusing on the Mission and Bernal Heights.

**Exhibit 2.4: Small Sites Project Sponsors by Neighborhood, As of January 2021**

Small Sites Project Sponsor	Mission	Bernal Heights	Other	Total
Mission Economic Development Agency*	18	8	8	34
San Francisco Community Land Trust	3	-	8	11
Chinatown Community Development Corporation	-	-	4	4
Mission Housing Development Corporation	-	-	1	1
Positive Resource Center	-	-	1	1
<b>Total</b>	<b>21</b>	<b>8</b>	<b>22</b>	<b>51</b>

Source: MOHCD

\*This includes one project co-sponsored with San Francisco Housing Development Corporation

## Capacity Building Grants in 2019 NOFA

To address the gap in project sponsor capacity in other parts of the City, the 2019 Program NOFA provided \$3.45 million for Capacity Building Grants to help support the growth and organizational sustainability of Small Sites and existing partners as well as help facilitate the expansion of the Program into underserved neighborhoods. Of this \$3.45 million, \$450,000 was set aside to support the expansion of the Program on the west side of San Francisco, which MOHCD defined as Supervisorial Districts 1, 4, and 7. This funding awarded grants of \$300,000 for building capacity for community development on the west side of the City

and \$150,000 for a District 4 Small Sites Acquisition Strategist/Project Manager. In May 2020, MEDA was awarded funding to work with community-based organizations in the Sunset and Richmond neighborhoods to develop new capacities for acquiring Small Sites and preserving affordable housing. The grant term was for one year, and MOHCD anticipates MEDA wrapping up their work by the end of the Summer 2021. However, due to some staffing issues the term of the grant may be extended according to MOHCD staff. Exhibit 2.5 provides an overview of the Capacity Building Grants purpose and funding allocation for each category of activities.

**Exhibit 2.5: Small Sites 2019 NOFA Capacity Building Grants**

<b>Small Sites Capacity Grant</b>	<b>Purpose</b>	<b>Eligible Activities</b>	<b>Funding</b>
<b>Funding for Nonprofit Staff</b>	Support nonprofit capacity, sustainability, and performance related to Small sites Projects	Project Management Asset Management Property Management Construction Management Resident Outreach, Building Organizational/Operational Capacity	\$2,750,000
<b>Program Innovations</b>	Improve implementation and develop strategies to scale the impact of the Program in all neighborhoods throughout the City	<b>Small Sites Outreach &amp; Intake:</b> Create initial intake form, pipeline tracking, financial feasibility tool, and marketing materials for all stakeholder use <b>Scaling Impact of Acquisition &amp; Preservation Programs:</b> Research actionable models for expanding the reach of the Program <b>Small Sites Market Analysis &amp; Strategy:</b> Develop a tool for identifying Small Sites and other preservation opportunities that helps guide decision making and provides strategy for reaching underserved neighborhoods by the Program <b>Other Innovations</b>	\$250,000
<b>West Side Initiatives</b>	Building capacity on the west side of the City to expand acquisition & preservation programs	<b>Building Capacity for Community Development on the West Side:</b> Funding to support the growth, expansion or creation of a westside based nonprofit dedicated to preserving and expanding affordable housing. <b>District 4 Small Sites Acquisition Strategist/Project Manager:</b> Support a nonprofit in hiring project staff to identify and execute development opportunities in District 4	\$450,000
<b>Total</b>			<b>\$3,450,000</b>

Source: 2019 Small Sites Program NOFA

While this funding is an important step in helping expand the reach of Small Sites, the grants provide a limited amount of funding focused on developing capacity of organizations to sponsor Small Sites projects on the west side of the City, and the grants do not dedicate funding for specific projects in these neighborhoods. In addition, MOHCD does not have a long-term plan for how to ensure that capacity on the west side or in other parts of the City is sustained beyond this funding, and the grants do not address capacity in other underserved neighborhoods, such as Bayview, Excelsior and Outer Mission, and Castro and Noe Valley.

## Opportunities to Monitor Displacement Trends and Housing

### Opportunities

MOHCD has not established formal processes to regularly monitor preservation needs by neighborhood. MOHCD staff report that they review the Rent Board's Annual Eviction Report, which provides the number of eviction notices filed with the Rent Board.<sup>14</sup> This information is broken down by reason for eviction, which includes but is not limited to non-payment of rent, committing a nuisance, Ellis Act, condo conversion sale, owner/relative move-in, etc. However, the report does not provide a breakdown by geography.

In addition to tracking trends in displacement by neighborhood, MOHCD could consider monitoring opportunities for acquisition to inform preservation strategies. The Community Opportunity to Purchase Act (COPA), implemented in 2019, provides qualified nonprofits with the right of first refusal to purchase multifamily housing that is about to go on the market. As of April 2020, MOHCD staff report that they did not have sufficient systems or capacity to monitor where multifamily housing opportunities arise through COPA, and the COPA legislation does not require MOHCD to be notified along with qualified nonprofits. Nonprofits are responsible for reviewing a COPA listing and determining if it is a potential opportunity for Small Sites investment. If MOHCD had additional capacity to track this information, it could help provide more data about where in the City acquisition opportunities are arising.

## Conclusion

Small Sites projects are concentrated in the Mission and Bernal Heights neighborhoods, due largely to insufficient developer capacity citywide and to project prioritization based on availability and feasibility rather than geography. MOHCD has taken steps to address nonprofit capacity in other parts of the City, but a more comprehensive and sustainable policy to encourage sponsorship of acquisition and preservation projects in underserved neighborhoods is needed.

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<sup>14</sup> The Annual Evictions Report is required by Section 37.6(j) of the Rent Ordinance.

## Recommendations

The MOHCD Director should:

**Recommendation 4:** Evaluate and recommend to the Board of Supervisors options for ongoing capacity building for Small Sites developers, including reporting on the outcome of the Capacity Building Grants in MOHCD's Annual Progress Report or another public report, and options for future grants.

**Recommendation 5:** Establish and document a policy and set of criteria that clearly states: (a) how geography will be considered when evaluating preservation and acquisition projects for funding; and (b) how MOHCD will monitor and address preservation needs by neighborhood. *This could include tracking of displacement data and COPA announcements by neighborhood.*

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### 3. Insufficient Affordable Housing Developer Capacity

While MOHCD has recently taken steps to increase the capacity of smaller community-oriented developers, affordable housing projects have largely been awarded to a small number of developers. Between 2015 and 2019, MOHCD awarded 71 percent of projects to just three developers, and the number of unique developers selected for projects has declined over time. Encouraging participation from a broad array of developers, including those that may represent different geographic areas of the City and Communities of Color, can help expand affordable housing development to communities that are underserved, increase the competitiveness of solicitations, and help bring down costs.

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#### A limited number of affordable housing developers respond to solicitations, limiting competitiveness of solicitations and awards

While MOHCD has recently taken steps to increase the capacity of smaller community-oriented housing developers, affordable housing projects have largely been awarded to a small number of developers. Between 2015 and 2019, MOHCD awarded 71 percent of projects to just three developers (15 out of 21 projects). Exhibit 3.1 below shows developers that were awarded at least one project as the lead sponsor.

**Exhibit 3.1: Developers Awarded Projects as Lead Sponsor, 2015-2019**

Name of Developer	Projects Awarded as Lead Sponsor	
	Number	Percent
Tenderloin Neighborhood Development Corporation	8	38%
BRIDGE Housing Corporation	4	19%
Mercy Housing	3	14%
<i>Subtotal Top 3 Developers</i>	<i>15</i>	<i>71%</i>
Chinatown Community Development Center	2	10%
Christian Church Homes	1	5%
Mid-Peninsula Housing	1	5%
Mission Economic Development Agency	1	5%
Related California	1	5%
<b>Total</b>	<b>21</b>	<b>100%</b>

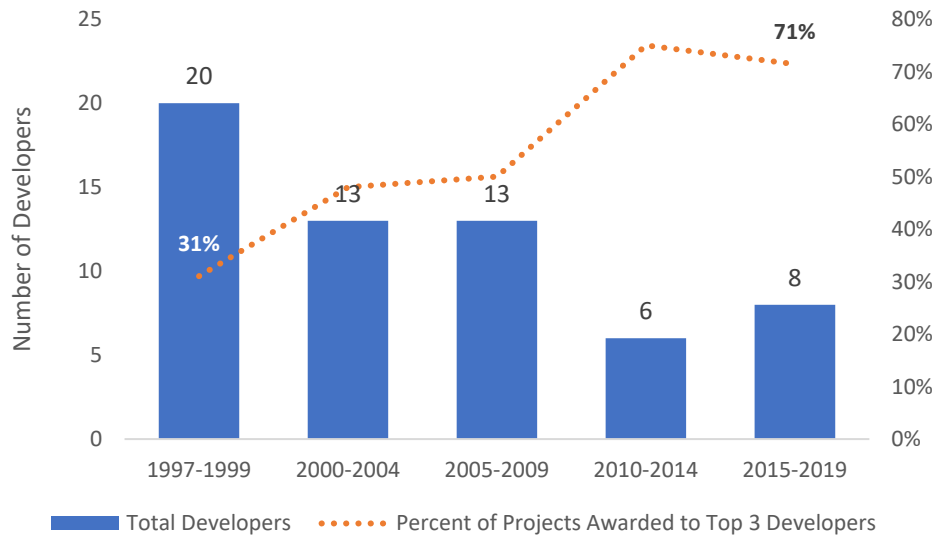
Source: MOHCD

#### Decline in Number of Affordable Housing Developers

In the 20-year period between 1999 and 2019, the number of unique developers that were awarded funding through MOHCD solicitations decreased from 20 to 8, as shown in Exhibit 3.2 below. Over the

same period, the share of projects awarded to the top three developers increased from 31 percent to 71 percent.

**Exhibit 3.2: Developers Awarded Projects as Lead Sponsor, 1997-2019**



Source: MOHCD

Note: First bar (1997-1999) reflects three-year period due to data availability and subsequent bars reflect five-year time periods

The pool of developers selected for projects has declined over time due to many factors beyond MOHCD's control, including increases in the complexity of affordable housing financing and consolidation among developers. Since 2012, funding streams for affordable housing development have grown more fragmented due to the loss of State redevelopment funding.<sup>15</sup> Prior to 2012, the largest source of affordable housing funding in San Francisco and other jurisdictions in California came from Redevelopment Agencies.<sup>16</sup> While San Francisco and the State have replaced some of this lost funding with bond financing and other sources, developers now have to apply for more funding sources across multiple public agencies, which has increased the capacity and resources needed for developers to successfully compete for projects.<sup>17</sup> According to MOHCD staff, there has also been some consolidation amongst developers within the past 10 years, reducing the number of developers competing for funding in San Francisco.

<sup>15</sup> "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." The Turner Center for Housing Innovation. UC Berkeley. [https://turnercenter.berkeley.edu/wp-content/uploads/pdfs/LIHTC\\_Construction\\_Costs\\_March\\_2020.pdf](https://turnercenter.berkeley.edu/wp-content/uploads/pdfs/LIHTC_Construction_Costs_March_2020.pdf)

<sup>16</sup> San Francisco Planning. "Funding Affordable Housing." <https://projects.sfplanning.org/community-stabilization/funding-affordable-housing.htm>

<sup>17</sup> "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program."



## Strategies to Build Capacity for Community-Based Developers

MOHCD does not have a formal policy or documented strategy to improve capacity for smaller community-based developers. However, MOHCD included language<sup>18</sup> in their most recent RFQ (2020 Multisite RFQ) to encourage joint-venture and strategic partnerships with smaller developers led by Persons of Color, and MOHCD management staff report that they are currently in the process of creating a new position specializing in capacity building for smaller developers led by Persons of Color. In addition, as noted in Section 2 of this report, MOHCD awarded Small Sites Capacity Building Grants in 2020 will help build nonprofit developer capacity for the Small Sites Program as well as new development. Of the \$3.45 million in grants, \$2.75 million went towards funding nonprofit staff to support nonprofit capacity, sustainability, and performance related to Small Sites Projects, such as project management and asset management and other activities that may be transferrable to new development. MOHCD should formalize and document their approach for building capacity for smaller developers led by Persons of Color.

## Conclusion

Encouraging participation from a broad array of developers, including those that may represent different geographic areas of the City and Communities of Color, can help expand affordable housing development to communities that are underserved, increase the competitiveness of solicitations, and help bring down costs.

## Recommendation

The Director of MOHCD should

**Recommendation 6:** Formalize and document MOHCD’s strategy for building capacity for smaller, community-oriented organizations, especially those led by Persons of Color.

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<sup>18</sup> As part of the Racial Equity Strategy criteria for the 2020 Multisite RFQ, MOHCD required respondents to describe “any substantive partnership that is part of the RFQ response that increases opportunity/capacity for growth of smaller and Black, Indigenous, and people of color (BIPOC)-led organizations in development roles.”

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## 4. New Development Solicitation and Evaluation Procedures

The Mayor’s Office of Housing and Community Development does not have documented guidelines to ensure that solicitation timelines and project requirements are consistent by types of projects and solicitations and understood by developers and the public. According to interviews with MOHCD staff, project managers typically determine these elements based on previous similar solicitations, subject to approval by senior staff. Solicitations for affordable housing projects are not uniform, with solicitation response times, and developer experience, including previous projects demonstrating qualifications, varying between solicitations. For example, in our review of 16 solicitations between 2015 and 2019, the average number of days to respond varied from 49 to 94; while different solicitation types require different responses from developers (i.e., a Request for Proposals may require more detailed proposals than a Request for Qualifications), MOHCD does not have documented guidelines for the time needed to advertise and respond to each type of solicitation. For experience, some solicitations required that the developer meet all qualifying project criteria within one project while other solicitations allowed for meeting qualifying project criteria across projects. “Experience” was also defined either as the number of qualifying projects in excess of the minimum, or more generally as “experience completing projects on time and on budget, experience working with the target population, experience with the specific construction type”. By not having documented guidelines for solicitation development and evaluation, developer selection can appear subjective. In addition, minimum experience requirements above what is necessary to demonstrate the developer’s capacity for completing a potential project can create barriers to broader participation, especially for smaller community-oriented developers.

MOHCD also does not have written guidelines regarding selection panel composition or conflict of interest controls. In our detailed review of four solicitations, one selection panel member had also drafted the solicitation; while MOHCD changed its practice in 2018 to ensure separation between individuals drafting the solicitation documents and serving on the selection panel, this policy is not documented. MOHCD requires selection panel participants to indicate any potential conflicts of interest, either personal or professional, prior to evaluating proposals, but does not have a documented process to manage or resolve potential conflicts of interest when they are identified, such as previous donations made or past work with any member of the proposed development team.

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### MOHCD does not have documented guidelines to ensure that solicitation timelines and project requirements are consistent by types of projects and solicitations and understood by developers

MOHCD does not have documented standards or guidelines for determining selection criteria, response timelines, and minimum experience requirements for new affordable housing development solicitations. According to MOHCD staff, project managers typically determine these elements based on previous

similar solicitations, subject to approval by senior staff. However, we found variation between solicitations in the selection criteria, number of days to respond, and minimum experience requirements. Inconsistency in solicitation development and evaluation practices can make the process less predictable for potential respondents and discourage participation. In addition, minimum experience requirements above what is necessary to demonstrate the developer’s capacity for completing a potential project can also create barriers to broader participation, especially for smaller community-oriented developers.

Federal and local procurement guidelines recommend that agencies ensure consistency and clarity in solicitation development practices and promote open and fair competition. The Federal Acquisition Regulation establishes policies and procedures regarding competitive procurement for U.S. executive branch agencies. Federal Acquisition Regulation rules require that agencies “ensure consistency among the solicitation requirements, notices to offerors, proposal preparation instructions, evaluation factors and subfactors, solicitation provisions or contract clauses, and data requirements.” MOHCD’s Contracting Manual for Federally Funded Construction Projects provides some recommended practices for solicitation development based on federal and local regulations, and overall suggests avoiding situations or actions that reduce competition, such as placing unreasonable qualifying requirements on respondents.

We reviewed response timelines, minimum experience requirements for respondents, and selection criteria for all solicitations (16 total) issued by MOHCD between 2015 and 2020 for new affordable housing development funding opportunities to assess consistency and clarity in solicitation practices. These solicitations included two Notices of Funding Availability (NOFAs), which may award funding to multiple respondents, as well as seven Requests for Proposals (RFP) and seven Requests for Qualifications (RFQs), which typically award funding to one respondent. We also conducted more detailed review of four solicitations, including interviews with developers, selection panel participants, and MOHCD project managers, to better understand decision-making practices and compliance with City policies. We did not identify any improper action by MOHCD in awarding City funds, but MOHCD could strengthen the process by formalizing and documenting its policies regarding solicitation development and evaluation practices. Our findings from our review of solicitations and awards are described below.

## Number of Days to Respond

The amount of time that developer teams were given to respond to a solicitation (including NOFAs, RFQs and RFPs) varied between solicitations. While different solicitation types require different responses from developers (i.e., an RFP may require more detailed proposals than an RFQ), MOHCD does not have criteria for the time needed to advertise and respond to each type of solicitation. Exhibit 4.1 below shows the minimum and maximum number of days to respond by solicitation type.

**Exhibit 4.1: Number of Days to Respond by Solicitation Type, 2015-2020**

Solicitation Type	Number of Solicitations	Min Number of Allowed Days to Respond	Max Number of Allowed Days to Respond	Average Number of Allowed Days to Respond
NOFA	2	34	63	49
RFP	7	56	161	94
RFQ	7	33	77	49

Source: Mayor's Office of Housing and Community Development

The 2016 Proposition A NOFA provided 63 days to respond while the 2019 Proposition A NOFA provided only 34 days. Of seven RFPs, the number of days provided to respond varied from 56 days to 161 days, with an average of 94 days. Of seven RFQs, response time varied from 33 days to 77 days, with an average of 49 days. Developers may need less time to respond to RFQs compared to RFPs due to reduced requirements. Unlike RFPs, RFQs do not require comprehensive development plans, financing plans, and services plans. However, there is still a difference of 44 days within RFQs and 105 days within RFPs between the minimum and maximum number of days to respond.

## Minimum Experience Qualifications

We also identified variation in minimum experience qualifications for respondents between solicitations. Establishing minimum experience requirements can reduce the risk that projects fail, as respondents must demonstrate that they have sufficient capacity to complete the proposed project based on completion of similar projects. However, criteria that are unnecessary or too specific can also serve as a barrier to broader participation and makes it challenging for small, community-oriented developers to gain capacity. In our interviews with developers, several reported that they had previously chosen not to submit proposals because they were unable to meet the minimum requirements or because of limited turnaround time.

To respond to competitive solicitations advertised by MOHCD, developer teams submitting proposals must demonstrate that they meet minimum experience qualifications by identifying "Qualifying Projects" in which team members participated. The proposed developer, owner, and property manager must have experience with projects that have specific characteristics detailed in the Qualifying Projects criteria. These criteria typically include type of construction, unit mix (such as majority multiple bedroom), building type (such as mixed use or residential-only), number of units, location requirements, target population, etc.

Qualifying Project criteria varied between solicitations while other criteria have evolved over time. Since 2015, the date of the most recent qualifying project has increased from five years (for 8 solicitations) to 10 years (for 6 solicitations). However, one solicitation required that a qualifying project have been completed within the last eight years, and one solicitation did not specify how recently the sponsor must have developed a qualifying project. In addition, the Qualifying Project requirement regarding number of

units increased from “at least 50 units” in size in 2015 and 2016 to the majority of solicitations requiring “at least 75 units” from 2016 to 2019. However, three solicitations from 2017 did not include a minimum number of required units, and an additional three solicitations included other unit number requirements. MOHCD should establish standard guidelines for qualifying project criteria that describe the importance of the criteria in assessing the capacity of the respondent, the standard requirement, and reasons why project managers may vary from the standard requirement. Exhibit 4.2 below summarizes the Qualifying Project requirements for 16 solicitations.

**Exhibit 4.2: Qualifying Project Requirements for 16 Solicitations, 2015 - 2020**

Qualifying Project Requirements	Number with Req.	Number without Req.	Percent with Req.	Requirement Description
New Construction	16	0	100%	New construction
Building Type	15	1	94%	Residential; or Mixed-use, including residential
Unit Type	10	6	63%	Requirement varies (e.g., majority multiple-bedroom units, majority studios and 1-bedrooms, etc.)
Number of Units	13	3	81%	Requirement varies (e.g., at least 50 units, at least 75 units, etc.)
Construction Type	11	5	69%	Requirement varies (e.g., modular, wood construction over concrete or steel, etc.)
Located in San Francisco	12	4 <sup>a</sup>	75%	Location in San Francisco
Target Population	16	0	100%	Requirement varies (e.g., low and very low-income families, teachers, etc.)
Financed by Low-Income Housing Tax Credits	11	5 <sup>b</sup>	69%	Financed by Low-Income Housing Tax Credits
Recent Date of Qualifying Project	15	1	94%	Requirement varies (e.g., one qualifying project in San Francisco in the last 10 years, one qualifying project in San Francisco in the last 8 years, etc.)
Each project must meet all requirements	14	2	88%	A qualifying project must meet all identified requirements

Source: Budget and Legislative Analyst review of solicitations

<sup>a</sup> Includes three solicitations that required developers to have experience constructing in San Francisco but did not require qualifying projects be located in San Francisco and one solicitation that specified that a qualifying project did not have to be located in San Francisco if it was developed specifically for the target population (teachers)

<sup>b</sup> Includes three solicitations that required developers to have experience with Low Income Housing Tax Credit (LIHTC) financing but did not require qualifying projects to have received LIHTC financing, and one solicitation that only required the proposed Property Manager to have managed at least one Qualifying Project financed with Low Income Housing Tax Credits. One solicitation did not have any LIHTC financing requirements.

For most solicitations reviewed (14 out of 16 reviewed), the solicitation specified that a Qualifying Project must meet all requirements, and developers cannot meet experience requirements if they have experience in the specified areas across multiple projects. For example, if a Qualifying Project is defined as senior-housing with at least 75 units, a developer that has developed senior housing with 60 units as well as other projects with at least 75 units that were not for seniors would not meet the minimum

requirements. Of the 16 solicitations reviewed, two (the 1064 Mission St. RFQ and the Balboa Park Station Upper Yard RFQ) did not require that all Qualifying Project criteria be met in the same project, and instead required that either the lead developer or co-developer provide evidence of experience with housing development for the target population, desired housing type, and past use of Low-Income Housing Tax Credit financing.<sup>19</sup>

## Selection Criteria

Among the solicitations reviewed, selection criteria also varied. The selection criteria are ultimately applied by the selection panel to score projects and award funding. While there is consistency in the selection criteria categories, including the experience of the applicant team (Experience) and the team's vision for the proposed project (Concept or Vision), criteria could vary. For example, the definition for "Developer Experience," a sub-criterion within the Experience category, varied between solicitations, and was defined either as the number of qualifying projects in excess of the minimum, or more generally as "experience completing projects on time and on budget, experience working with the target population, experience with the specific construction type," etc.

In one of the four solicitations that we reviewed in detail (730 Stanyan St RFQ), MOHCD added new selection criteria and issued a supplemental questionnaire to respondents two months after the deadline for submitting responses to the RFQ and three weeks after the selection panel scored the proposals according to the initial selection criteria. MOHCD issued the supplemental questionnaire to the three respondents on December 16, 2019, and required responses by December 24, 2019, eight days later. According to MOHCD staff, the supplemental questionnaire was issued in order to incorporate racial equity criteria that was not included in the initial solicitation. In November 2019, the selection panel recommended that the funding be awarded to one respondent with the highest score, but the additional points from the supplemental questionnaire resulted in two respondents receiving a tying score, and MOHCD awarded funding to both respondents as a joint-venture partnership although they submitted independent proposals.

## Selection Panel Composition and Conflict of Interest Controls

MOHCD does not have written guidelines regarding selection panel composition or potential conflict of interest. Selection panels are appointed by the Director of MOHCD and include both MOHCD staff and staff from other City departments with expertise in construction, affordable housing financing, architecture, property management and supportive services. Selection panels also typically include at least one panelist familiar with the neighborhood of the proposed project. Of the selection panels for the four solicitations that we reviewed in detail, three included panelists who were neighborhood community

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<sup>19</sup> The Balboa Park Station Upper Yard RFQ did require past completion of a specific type of construction within a specified timeframe and minimum unit count but did not have any additional criteria requirements (target population, location, etc.) that had to be met with the same project.

representatives (non-MOHCD and non-City staff). Additionally, all four selection panels included City staff from other departments, including the Department of Homelessness and Supportive Housing, the Office of Economic and Workforce Development, or the Recreation and Parks Department. However, one of the selection panels included a MOHCD staff member that drafted the solicitation. According to MOHCD senior staff, MOHCD changed its practice in 2018 to ensure separation between individuals staffing and serving on the selection panel following this solicitation, but this policy is not documented.

MOHCD requires selection panel participants to indicate any potential conflicts of interest, either personal or professional, prior to evaluating proposals but does not have a documented process to manage or resolve potential conflicts of interest when they are identified, such as previous donations made or past work with any member of the proposed development team. For example, one selection panel member indicated that they previously worked for one of the organizations that responded to the solicitation. While selection panel members' signed statements indicate that any prior contact with respondents will not affect their ability to score proposals, MOHCD should ensure that the process appears impartial to respondents. MOHCD should document its conflict-of-interest procedures and selection panel composition guidelines to ensure continued fairness in the solicitation process.

## Conclusion

We did not identify any improper action by MOHCD in awarding City funds for new affordable housing development, but MOHCD could strengthen the process by formalizing and documenting its policies regarding solicitation development and evaluation practices. Federal and local procurement guidelines recommend that agencies ensure consistency and clarity in solicitation development practices and promote open and fair competition.

## Recommendation

The Director of MOHCD should

**Recommendation 7:** Establish standard guidelines for minimum requirements for respondents (including standard Qualifying Project criteria by project type), number of days to respond, project selection criteria, selection panel composition, and conflict of interest controls.

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## 5. Application Review Procedures for Acquisition & Preservation Programs

MOHCD's primary acquisition and preservation programs include the Small Sites Program (Small Sites) and Downtown Neighborhood Preservation Fund (Downtown Neighborhood), which operate as "over-the-counter" funding solicitations where applicants can apply for funding for eligible projects on a rolling basis. MOHCD's process for reviewing and evaluating acquisition and preservation projects for the two programs does not have consistent formal documentation, and most projects are not formally scored against the evaluation criteria in program funding solicitations. While the funding solicitations specify that MOHCD will score potential projects based on established criteria when MOHCD receives more than one application during the same time period, the solicitations do not detail how MOHCD will evaluate applications when only one application is received at a time, which is the case for most proposed projects. In addition, MOHCD maintains limited documentation for withdrawn and denied applications, making it difficult to assess why some projects are approved while others are denied or withdrawn.

Altogether, the Small Sites and Downtown Neighborhood programs have made available over \$157 million for projects. Because most projects are not reviewed externally by a selection panel, the Affordable Housing Loan Committee, or the Board of Supervisors and applications are not competitively ranked, MOHCD needs to establish detailed and consistent evaluation and documentation practices to ensure that funded projects sufficiently meet program goals and guidelines. Not following clear review and documentation risks inconsistency and subjectivity in funding determinations.

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### Evaluation of Small Sites and Downtown Neighborhood Preservation projects is more informal and less documented than for new development projects, risking inconsistency and subjectivity in project selection

MOHCD selects Small Sites and Downtown Neighborhood Preservation projects through Notices of Funding Availability (NOFAs), issued in 2014 and 2019. Projects are evaluated for funding approval on a rolling basis as they are submitted.



*Acquisition and Preservation Solicitations and Awards*

Small Sites issued its first Notice of Funding Availability (NOFA) in July 2014, making available an initial \$3 million in loans for acquisition and rehabilitation funding for multi-family buildings of 5 to 25 units. An additional \$84.3 million was awarded through the 2014 NOFA.<sup>20</sup> MOHCD released a second Small Sites NOFA in September 2019 to provide \$37 million for acquisition and preservation financing through the Program. The Downtown Neighborhood NOFA was issued in October 2018 and provides \$33 million to fund housing acquisition and preservation located within a one-mile radius of the Oceanwide Center.<sup>21</sup>

As of January 2021, MOHCD has considered over 70 properties for Small Sites funding, and the City has awarded Small Sites funding to 42 properties (303 residential units) and has provided a letter of support to an additional nine properties that received bridge financing from the San Francisco Housing Accelerator Fund and anticipate receiving permanent financing through Small Sites. To date, MOHCD has funded only two projects with Downtown Neighborhood program funding with delays in the sale of Oceanwide Center slowing down access to this funding source.

## Scoring Criteria for Preservation & Acquisition Projects

The Small Sites and Downtown Neighborhood program Notices of Funding Availability (NOFAs) describe specific criteria for evaluating proposed projects and awarding a score out of 100 points (Small Sites) or 50 points (Downtown Neighborhood). Scoring criteria are intended to rank proposals, but because proposals are reviewed independently at the time of submission, MOHCD does not apply the criteria. Each Small Sites and Downtown Neighborhood program NOFA states that ranking according to the scoring criteria will only occur when applications are received concurrently, in the case of Small Sites, or within two weeks of each other, in the case of the Downtown Neighborhood program. MOHCD has the authority to waive the criteria, as is the case if there are no project applications being reviewed concurrently. Our review of a sample of nine projects funded through the Small Sites and Downtown Neighborhood programs showed that none of the projects were reviewed and awarded points according to the criteria outlined in the program NOFAs. In addition, MOHCD did not track the dates that applications for these nine projects were received in their internal pipeline project tracker, so we were unable to determine if the criteria should have been used for any applications. Exhibit 5.1 shows the 2019 Small Sites NOFA evaluation criteria and point structure.

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<sup>20</sup> According to MOHCD staff, there were not new formal solicitations for the additional \$84.3 million that followed the initial 2014 \$3 million solicitation. The MOHCD Small Sites team informally engaged with community stakeholders to alert them of the program and program funding, including engaging in a community process when updating the Underwriting Guidelines and ongoing engagement through the Housing Preservation Lab, which is a consortium of community-based organizations that work with the Small Sites Program.

<sup>21</sup> As required by City Code Sec.10.100-64.

**Exhibit 5.1: 2019 Small Sites NOFA Scoring Criteria**

Category	Potential Points
Acquisition Experience exceeding threshold requirement	15
Property Management Experience exceeding threshold requirement	15
Project Management Experience exceeding threshold requirement	15
Construction Management Experience exceeding threshold requirement	15
Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction	8
Neighborhoods where low-to-moderate income households are at risk of displacement, or currently underserved by the Small Sites Program	8
Existing tenants include vulnerable populations: low income people of color, families with minor children, elderly, disabled, and catastrophically-ill persons	8
Building houses tenants with the lowest incomes	8
Building requires the lowest amount of subsidy per unit	8
<b>TOTAL POSSIBLE POINTS</b>	<b>100</b>

Source: 2019 Small Sites NOFA

The categories and potential point values outlined in Exhibit 5.1 mirror the 2014 Small Sites NOFA except for the category: “Neighborhoods where low-to-moderate income households are at risk of displacement or currently underserved by the Small Sites Program.” In the 2014 NOFA this category was: “Building is located in a neighborhood with a high level of Ellis Act evictions.” Downtown Neighborhood criteria are similar to those of Small Sites but evaluate projects out of 50 points rather than 100 points and have all project developer experience requirements as meeting a threshold of yes or no.<sup>22</sup> The criteria outlined in the funding solicitations provide a clear, straightforward mechanism for evaluating projects, but MOHCD did not use these criteria in evaluating individual projects reviewed for this audit.

The program NOFAs include some guidance on how projects will be evaluated individually, beyond the criteria discussed above. Both the Small Sites and Downtown Neighborhood NOFAs state that eligible applications will be reviewed for compliance with City policies and program guidelines. The NOFAs outline a set of threshold criteria that include the type of applicants who may apply<sup>23</sup> and relevant applicant experience. In addition, the NOFAs state that projects will be reviewed for issues including but not limited to the project’s: (1) Financial feasibility; (2) Cost per unit and square foot in comparison to comparable projects and not exceeding the program’s the respective subsidy limits; (3) Ability to leverage other funding; and (4) Assurance that it will not displace any residential tenants, and that any anticipated temporary relocation of tenants has a preliminary relocation plan and budget. While these criteria provide some guidance on how MOHCD will evaluate projects individually, they lack the detail of the scoring criteria in Exhibit 5.1.

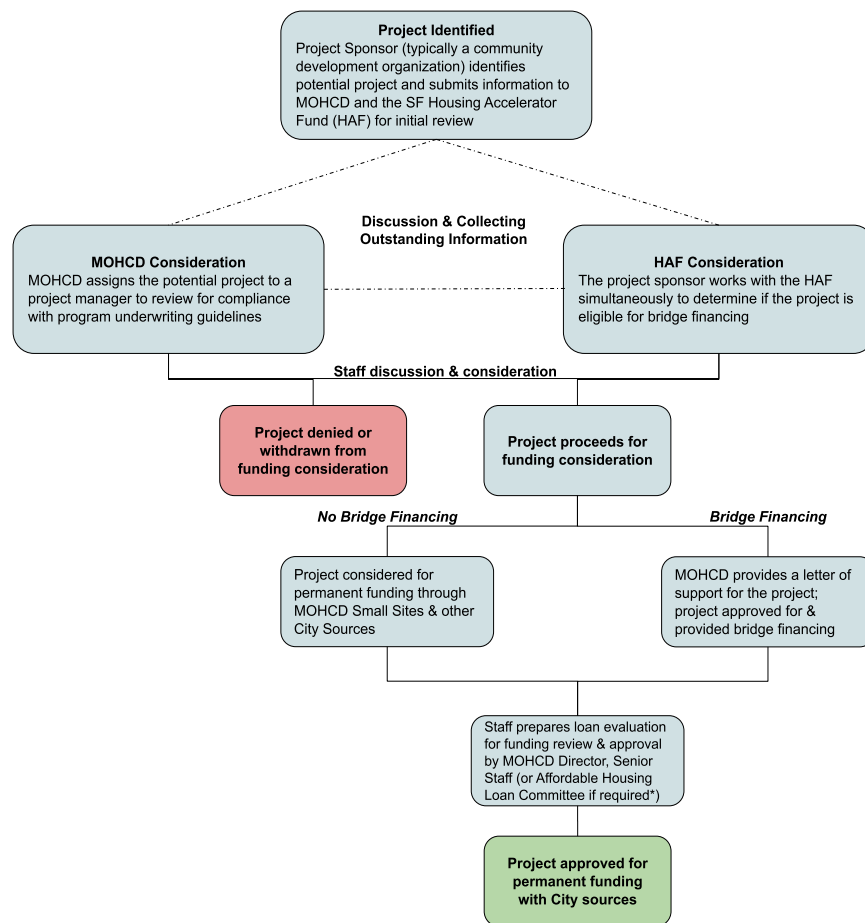
<sup>22</sup> Downtown Neighborhood program criteria awards points for targeting buildings with households at risk of displacement or paying more than 50 percent of their income on rent or being part of a vulnerable population group. These two are considered separate and each are scored out of 10 points with 1 point award for each 10 percent of applicable units.

<sup>23</sup> Only nonprofits may apply for Downtown Neighborhoods, and nonprofits or for-profits may apply to Small Sites.

## Acquisition & Preservation Project Application Review Process

Rather than score the projects against the criteria established in the NOFAs, MOHCD’s process for reviewing projects is more iterative and fluid compared to the review process for other MOHCD solicitations and lacks formal documentation. In assessing a project’s compliance with City policies and program guidelines, MOHCD’s initial consideration typically involves discussions with the project sponsor and the San Francisco Housing Accelerator Fund (HAF), which provides bridge financing<sup>24</sup> to many projects, as well as internal discussions. The HAF provides bridge financing if the City, through MOHCD, provides a letter of support indicating that City intends to provide permanent financing at a later date. Exhibit 5.2 shows the application review process for Small Sites and Downtown Neighborhood projects.

**Exhibit 5.2: Small Sites & Downtown Neighborhood Programs Application Review Process**



Source: Budget and Legislative Analyst analysis based on discussions with MOHCD staff

\*The Affordable Housing Loan Committee and the Board of Supervisors only review projects that award \$10 million or more in funding. Most acquisition and preservation projects fall below this threshold.

<sup>24</sup> Because the process of securing and closing on purchasing a building needs to move quickly due to industry conditions many projects utilize bridge financing to close on a project before permanent City funding is available. The Housing Accelerator Fund is the most common lender for City acquisition and preservation projects.

### *MOHCD Staff Initial Review of Project Applications*

MOHCD project managers are responsible for ensuring that the potential project meets underwriting guidelines and that the project sponsor has submitted all required material when an application is received, but MOHCD does not consistently document this initial assessment according to our review of a sample of projects. In addition, MOHCD does not have a consistent form or other document that project managers use to check project eligibility. At a later date, once the project is ready to close on permanent financing, MOHCD will complete its more formal loan evaluation report (discussed below) for official funding consideration by the Director and senior staff. However, this may occur after MOHCD has already provided a letter of support indicating that the project meets current program guidelines and that MOHCD intends to provide permanent funding. This letter of support is not legally binding, and MOHCD could subsequently deny the application for permanent funding. However, such action would introduce uncertainty around MOHCD's funding determinations for both project sponsors and the HAF.

### *Loan Evaluation and Funding Determination*

MOHCD project managers write formal loan evaluations for proposed projects for senior management and the MOHCD Director to review and provide their official approval for funding, but the loan evaluations do not explicitly evaluate potential projects against the criteria in the NOFA or clearly lay out in a chart or rubric how a project may or may not meet program or underwriting guidelines. Although the narrative may highlight deviations from program guidelines such as subsidy per unit in excess of program guidelines, these deviations are not clearly illustrated for a reviewer. In comparison, the loan evaluations submitted to the Affordable Housing Loan Committee for new development projects include tables that clearly describe if the project's budget and operating expenses are meeting respective underwriting standards and reasons why they might not meet a particular guideline. In addition, unlike loan evaluations that go before the Loan Committee, Small Sites loan evaluations are not publicly available.

Because the majority of Small Sites loans are under \$10 million, the Director has the authority to approve most loans, and they are not typically reviewed by the Citywide Affordable Housing Loan Committee or the Board of Supervisors. Our review of a sample of nine acquisition and preservation projects found that only two were reviewed by the Citywide Affordable Housing Loan Committee and the Board of Supervisors because they either exceeded the \$10 million threshold or were receiving funding under the South of Market Community Stabilization Fund, which requires Board of Supervisors approval. Of the remaining seven projects, five had written loan evaluation reports for internal review and approval, but two did not.

Of the two projects that did not have a loan evaluation, one project received permanent funding from the City, and the other project received bridge financing from the Housing Accelerator Fund for the initial acquisition in June 2020, but only received a letter of support for future Small Sites permanent funding from the City. MOHCD staff report that they do not write loan evaluations for projects before providing a letter of support to receive bridge financing because of the quick timeline required to close on funding and remove the building from the commercial market.

## Review process does not have formal documentation for denied and withdrawn applications

While MOHCD tracks potential projects, including projects that have been denied or withdrawn from consideration, the Department does not have a formal process for issuing a letter or other documentation when a project is denied funding. According to MOHCD's Small Sites Program internal pipeline tracker, as of January 2021, 11 Small Sites applications had been withdrawn and four had been denied funding out of 70 potential projects considered. MOHCD records the reasons why a project has been denied or withdrawn in the Small Sites pipeline tracker but does not issue formal documentation of the denial. According to MOHCD Staff, formally documenting the denial of requests would not be efficient because of the large number of requests for Small Sites funding, some of which are requested informally through emails or other channels. However, MOHCD should develop a mechanism to document why some projects reviewed by MOHCD for conformance to underwriting guidelines are approved while others are denied or withdrawn to maintain transparency and consistency in funding determinations. This documentation could be a checklist or matrix allowing MOHCD staff to report and track reasons for not approving a request for Small Sites funding without preparing a detailed denial.

According to MOHCD staff, a withdrawn project is one where the sponsor indicated that the project is not feasible, and a denied project is one where MOHCD determined the project is ineligible because it does not meet underwriting guidelines. Reasons for a project being denied funding include health and safety concerns due to building conditions, purchase price or tenant rents that exceed program guidelines, lack of sponsor capacity, and lack of an appraisal of the property. Projects may be withdrawn for similar reasons, including too little tenant support, financial feasibility or sponsor capacity.

However, a lack of formal documentation raises questions about potential inconsistencies for when projects are denied or withdrawn for certain reasons, especially financial feasibility. MOHCD has denied some projects where the purchase price of a building exceeded the appraisal or the subsidy per unit exceeded guidelines but funded other projects despite having similar issues. In one instance a project was denied because it would require a significantly higher subsidy per unit than the typical project, \$800,000 per unit compared to the Small Sites limit of \$400,000. However, for other projects it is unclear based on available documentation why these projects were denied or withdrawn while MOHCD made exceptions for other projects. For example, one project was withdrawn by the project sponsor because it was deemed financially infeasible at a cost per unit of \$450,000. While this would push the project over the Program's subsidy cap, MOHCD has made exceptions to fund other projects above \$400,000.

The lack of formal documentation makes it difficult to determine why some projects were considered denied as opposed to withdrawn. It is possible that a sponsor could withdraw a project because MOHCD has indicated that the project is unlikely to be approved for funding. MOHCD provided two examples of email communication for denied projects where MOHCD discussed the inability to move forward on a project due to missing information, but it appears as though most of the communication regarding decision-making occurs informally.

In addition, there is not an established process for a project sponsor to appeal MOHCD's funding determination. The funding solicitations and program guidelines do not provide any information on how a project sponsor can formally refute a denied project, further reflecting the informality of the review process. Documentation showing why a project is denied or withdrawn as well as establishing a procedure for handling appeals will help ensure greater consistency in awarding project funding.

## Application materials do not consistently align with solicitation requirements for a sample of projects

Applicants for Small Sites and Downtown Neighborhood program funding do not consistently submit all application materials required by program NOFAs based on materials submitted by MOHCD for a sample of projects. The Small Sites and Downtown Neighborhood program funding solicitations each specify the required application materials for project consideration and state that applicants must send a complete package to MOHCD in order to be assigned a MOHCD project manager for review. In reality, the process is more fluid and MOHCD will begin reviewing an application without all of the required materials submitted. While initial review may take place without all the materials submitted, our review finds that the final application materials seem to still be missing some materials or documentation of information. It is understandable that the review process may require more back and forth than outlined in a funding solicitation. However, it is important that application materials be documented and retained under a consistent policy to ensure projects are appropriately considered for funding.

Each program NOFA requests that applicants fill out a set of funding-source specific materials (either for the Small Sites or Downtown Neighborhood program), which include:

1. **Narrative Application Form**
2. **Budget** or pro forma detailing the project's funding sources and uses as well as details about the project's unit configuration and tenant incomes. For 2019 Small Sites projects, they are also requested to fill out the Preservation and Seismic Safety (PASS) pro forma.
3. **Master Checklist**, which includes a tab for the project sponsor to track the application, budget, income certification, and other required documents for a proposed project along with the date on the documents and date when they are sent to MOHCD. This Master Checklist also includes a tab for tracking the project timeline.
4. **Tenant Income Certification Form**, which also requests back-up income verification documentation, filled out for a majority of tenant incomes to ensure that average tenant income is at 80 percent area median income.<sup>25</sup>

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<sup>25</sup> The 2014 Small Sites NOFA requested at least 75 percent of current tenant incomes are certified and the 2019 Small Sites NOFA requested 66 percent of current tenants. The Downtown Neighborhood NOFA states that applicants should justify their estimates of tenant incomes based on information gathered from current property

5. **Landlord Background Check Form** (2014 Small Sites NOFA and Downtown Neighborhood NOFA only) to ensure they are registered with the Rent Board, OR the draft distribution list containing the contact information form for all transaction parties (2019 Small Sites NOFA only).<sup>26</sup>

Our review of a sample of nine projects funded through the Small Sites and Downtown Neighborhood programs found that none of the project application packets included all the materials as outlined in the program NOFAs. While applicants provided a budget detailing the sources and uses of funds for all projects reviewed, applicants did not consistently submit all other material requirements detailed above. Three of the projects did not include the narrative component of the application, and one project included a narrative that was only partially completed. All projects included a rent roll as part of their budget that reports the current rent and incomes for existing tenants, but only two of the projects we reviewed included a completed, separate tenant income certification form, and only one project provided some level of income verification documentation, as required in the NOFAs. Tenant income certification is an important step to ensure that Small Sites or Downtown Neighborhood funding is allocated appropriately to the targeted populations. Exhibit 5.3 below summarizes these findings.

**Exhibit 5.3: Sample of Nine Small Sites and Downtown Neighborhood Applications  
Compliance with Material Requirements**

Application Requirement	Small Sites Applications Meeting Requirement	Downtown Neighborhood Applications Meeting Requirement	Total Applications Meeting Requirement
Applications in Sample	7	2	9
Narrative Application	71.4% 5 out of 7	50.0% 1 out of 2	66.7% 6 out of 9
Budget	100.0% 7 out of 7	100.0% 2 out of 2	100.0% 9 out of 9
Master Checklist	57.1% 4 out of 7	0.0% 0 out of 2	44.4% 4 out of 9
Income Certification Form	28.6% 2* out of 7	0.0% 0 out of 2	22.2% 2 out of 9
Landlord Background Check Form (2014 Small Sites NOFA & Downtown Neighborhood Responses Only)	0.0% 0 out of 4	0.0% 0 out of 2	0.0% 0 out of 6

Source: Budget and Legislative Analyst review of sample of Small Sites and Downtown Neighborhood project applications

\*These two applications had the income certification form completed and one of these applications included some income verification documentation attached. MOHCD income verification form requests the most recent current year’s tax return, two most recent & consecutive pay stubs, or a copy of another current document verifying income (i.e., Social Security letter, benefit letter, etc.)

owners, contact with existing tenants, and other forms of information gathered because it may be challenging for applicants to get income certifications for larger buildings.

<sup>26</sup> The 2019 Small Sites NOFA no longer asks for this landlord background check but does specify that projects should fill out a document that contains the contact information for all transaction parties.

Of six project applications that responded to the 2014 Small Sites NOFA or Downtown Neighborhood NOFA, none of them included the landlord background check form; however, as noted above, this is no longer required of Small Sites Program applications. In at least one instance the Master Checklist, stated that this form was missing but no other document addressed whether it was received or the consequences of not receiving it.

## Conclusion

MOHCD's process for reviewing Small Sites and Downtown Neighborhood projects is more iterative and fluid compared to the review process for other MOHCD solicitations and lacks formal documentation. Following a consistent and defined review process, formally documenting projects that are withdrawn or denied, and ensuring that the application materials received are sufficiently meeting expectations as outlined in the funding solicitations can help improve the consistency of decision-making and provide greater transparency into the process.

## Recommendations

The MOHCD Director should:

**Recommendation 8:** Formalize and document MOHCD's application review process for potential Small Sites and Downtown Neighborhood projects, including documentation standards, to ensure consistency and transparency in the process. The documented policy should address the following: (a) how project managers should ensure application materials are consistently received for all projects considered; (b) a process for formally documenting MOHCD's initial assessment of conformance to underwriting and program guidelines (prior to issuing a letter of support); and (c) a process (which could be a checklist or matrix) for formally documenting when a project is not chosen for funding and why.

**Recommendation 9:** Develop a consistent table or rubric to include in the loan evaluation report that assesses the proposed project against evaluation criteria and program guidelines. *This rubric should easily and clearly communicate when a project is not meeting guidelines and why an exception is being made.*

**Recommendation 10:** Update future Small Sites and Downtown Neighborhood NOFAs to: (a) ensure material requirements reflect the materials needed for initial consideration of an application; and (b) ensure that the application review process description reflects MOHCD practices, including describing in more detail the evaluation process for applications that are not received at the same time as others.



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## 6. Small Sites Subsidy Policy

The Small Sites Program Guidelines sets a maximum on the City subsidy to Small Sites projects of \$400,000 per unit. A little under half of the projects that received funding or a letter of support for future Small Sites funding exceeded the maximum subsidy amount for their building size, and six projects exceeded the program maximum of \$400,000 per unit. While the Program Guidelines state that MOHCD may waive any portion of the Guidelines or make exceptions on a case-by-case basis, MOHCD has regularly made such exceptions for projects that exceed subsidy Guidelines. While the total per-unit cost of preserving an affordable housing unit through the Small Sites Program is less than the per-unit cost of new housing development, Small Sites projects have fewer non-City funding sources than larger affordable housing developments, resulting in higher per-unit costs for the City.

The Small Sites Program Guidelines were established in 2016 and are considered outdated; MOHCD is currently working with program stakeholders to revise the Small Sites Program Guidelines and is considering further increases to the subsidy per unit limits. MOHCD should develop explicit policy goals for the Small Sites Program that guide decision-making around the appropriate levels of City subsidy per unit, and in particular the goals should state the importance of dedicating resources to purchase smaller buildings.

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### The City's subsidy to Small Sites projects often exceeds the maximum subsidy per unit set by the Small Sites Program Guidelines

MOHCD has not consistently conformed to the Small Sites Program Guidelines regarding the maximum City subsidy per unit. As of January 2021, a little under half of the 51 Small Sites projects<sup>27</sup> exceeded the maximum subsidy amount for their building size, and six projects exceeded the \$400,000 maximum City subsidy per unit as outlined in the 2017 Small Sites Program Guidelines.<sup>28</sup> While the Guidelines state that MOHCD may waive any portion of the Guidelines or make exceptions on a case-by-case basis, MOHCD has regularly made such exceptions for projects that exceed subsidy Guidelines. In addition, there is not currently a policy that outlines under what circumstances the maximum subsidy guidelines will be overridden. MOHCD has denied projects based on project costs that exceeded guidelines, but due to insufficient documentation on project denials, we could not assess why some projects are granted

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<sup>27</sup> As of January 2021, 42 projects had been funded through Small Sites and an additional 9 projects had received interim financing from the San Francisco Housing Accelerator Fund. MOHCD has issued a letter of support for these 9 projects indicating that City intends to provide permanent financing at a later date based on subsidy estimates, which are subject to change based on final building rehabilitation costs.

<sup>28</sup> The Small Sites Program Guidelines have changed the maximum City subsidy per unit allowed multiple times since the program began in 2014, particularly in the early years of Program implementation when appropriate funding levels were still being experimented with. We used the 2017 guidelines in this analysis given that they are the current Department policy and have been in place the longest.

exceptions and not others. Not following the Guidelines results in potential inconsistencies in decision-making as well as limited transparency in funding determinations.

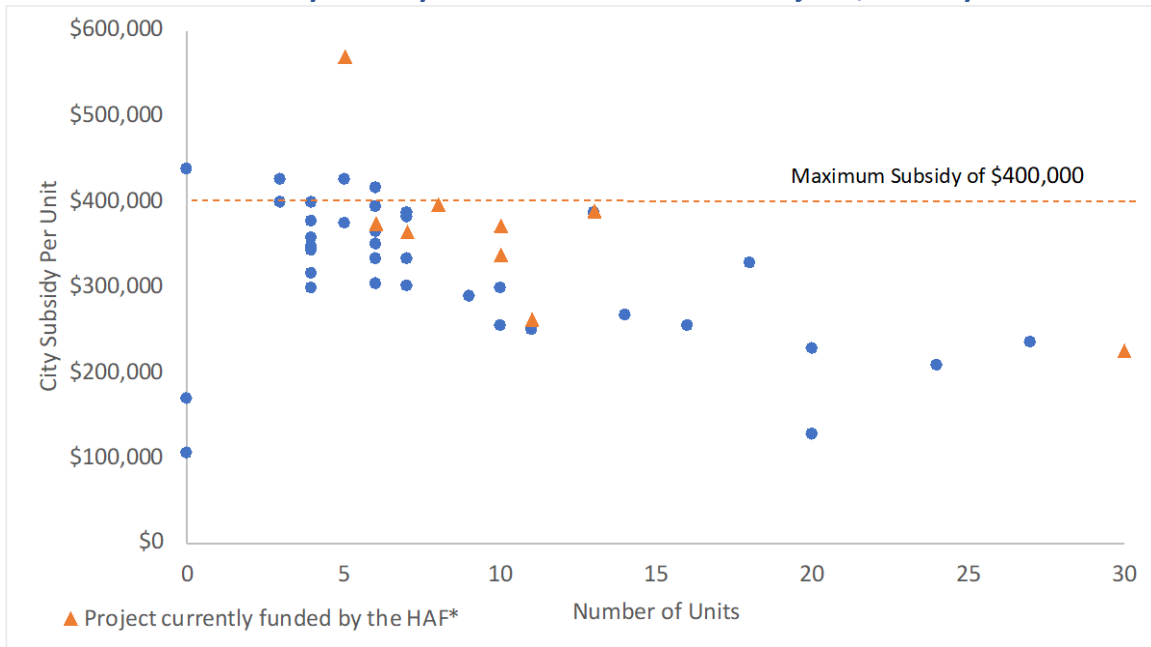
According to the 2017 Small Sites Program Guidelines, MOHCD must evaluate projects based on cost per unit and cost per square foot. The Guidelines state that the City subsidy cannot exceed limits based on building size but that MOHCD can make exceptions on a case-by-case basis when the eviction of vulnerable populations<sup>29</sup> is imminent. However, the subsidy may not exceed \$400,000 per unit for any project, and the additional subsidy may not be applied to units that are occupied by households earning more than 120 percent of area median income.

As shown below in Exhibit 6.2, 23 projects exceeded the per unit subsidy based on number of units, including the six projects that exceeded the \$400,000 per unit maximum. The majority of these projects (15 out of 21) were buildings with three to nine units. Buildings with fewer units tend to be more expensive on a per-unit basis as there are certain fixed costs associated with acquisition and rehabilitation that are distributed among fewer units compared to buildings with more units. MOHCD staff report that projects may exceed subsidy guidelines if the full extent of the rehabilitation work needed on a building is higher than was initially understood or if the project will further MOHCD's anti-displacement goals, such as the building is at imminent risk of an Ellis Act eviction or the building households are very low-income. In addition, MOHCD staff reported that the 2017 Program Guidelines are outdated, and MOHCD anticipates publishing new Small Sites Program Guidelines by the end of 2021. Exhibit 6.1 below shows that the City subsidy per unit is typically lower for buildings with more units, and Exhibit 6.2 shows the share of projects that exceed subsidy guidelines based on building size.

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<sup>29</sup> Defined as families with minor children, elderly, disabled, and catastrophically-ill persons.

**Exhibit 6.1: City Subsidy Per Unit for Small Sites Projects, January 2021**



Source: Budget and Legislative Analyst Analysis

\*Subsidy estimates subject to change. These nine projects have received interim financing from the HAF but have not yet received Small Sites loans. MOHCD has issued a letter of support for these projects indicating that City intends to provide permanent financing at a later date based on subsidy estimates.

**Exhibit 6.2: Small Sites Projects Exceeding Subsidy Guidelines, as of January 2021**

	Maximum City Subsidy per Unit	Number of Projects	Number of Projects Exceeding Subsidy Guidelines	Percentage of Projects Exceeding Subsidy Guidelines
<b>All Building Sizes (Program Maximum)</b>	<b>\$400,000</b>	<b>51</b>	<b>6</b>	<b>12%</b>
<b>By Building Size</b>				
Single Room Occupancy or per Bedroom (Group Housing)	\$175,000	6	3	50%
3 to 9 Units	\$375,000	32	15	47%
10 to 25 Units	\$300,000	13	5	38%
<b>Total</b>		<b>51</b>	<b>23</b>	<b>45%</b>

Source: Budget and Legislative Analyst Analysis

The six projects that have or are anticipated to exceed the maximum subsidy of \$400,000 per unit are primarily smaller buildings with 6 units or fewer, as shown below. For all but one of these projects, the guidelines suggest the subsidy amount should be closer to \$375,000 based on their building size of three to six units. In the case of 2157 Grove, the project is a nine-bedroom mental health treatment facility that, if in alignment with Small Sites guidelines should have a maximum subsidy per unit of \$175,000 for a per bedroom configuration. The 566 Natoma project, which is currently funded with Housing Accelerator

Funding and has not yet closed on a Small Sites loan, is the most expensive Small Sites project, exceeding the program maximum by 43 percent (\$170,000). However, the city subsidy amount for this project is subject to change pending final estimates of building rehabilitation costs. Exhibit 6.3 provides additional details on the six projects that exceeded the maximum subsidy of \$400,000 per unit.

### Exhibit 6.3: Small Sites Projects Exceeding \$400,000 Maximum Subsidy per Unit, January 2021

Project Name	Neighborhood	City Subsidy	Number of Units	City Subsidy per Unit	% Difference from \$400,000 Max
566 Natoma*	South of Market	\$2,850,000	5	\$570,000	43%
2157 Grove	Lone Mountain/USF	\$3,940,000	9 bedrooms	\$437,778	9%
4042 Fulton	Richmond	\$2,125,000	5	\$425,000	6%
1684 Grove	Lone Mountain/USF	\$1,274,970	3	\$424,990	6%
70 Belcher	Castro/Upper Market	\$2,124,210	5	\$424,842	6%
Pigeon Palace	Mission	\$2,496,642	6	\$416,107	4%

Source: MOHCD

\*Currently funded with Housing Accelerator Funding and not yet closed on Small Sites loan. The City subsidy (and subsidy per unit) is subject to change.

Note: Two projects whose subsidy per unit exceeded \$400,000 by \$1 and \$4 are not included in this chart.

Based on our review of project loan evaluations, MOHCD will call attention and provide a brief explanation when a project is receiving over the \$400,000 per unit limit. We reviewed the loan evaluations for two of the projects that exceeded the program maximum and found that in the case of 4042 Fulton, the reasons given for making an exception included wanting to address displacement pressure in the Richmond neighborhood as well as making a first Small Sites investment in the neighborhood. In the case of 2157 Grove, the loan evaluation addresses the uniqueness of the project as a 60-day, nine-bed residential mental health treatment facility. While it exceeds the subsidy limit, MOHCD staff encouraged funding the project through Small Sites because it is an important resource to the City and the Department of Public Health would be repaying all the costs related to the acquisition, predevelopment, and rehabilitation of the building. While both exceptions may be in service of other goals of MOHCD or the City (in the case of preserving residential treatment beds), further clarification on acceptable exceptions to the maximum subsidy per unit is needed to ensure consistency in application of Program Guidelines.

## Implications of Increasing the Subsidy Cap

MOHCD established its current Small Sites' maximum City subsidy of \$400,000 per unit in 2016, but the Guidelines addressing the City subsidy have changed a number of times since the Program began in 2014. Initially, the Guidelines approved in August and again in December of 2014 had a maximum City subsidy per unit of \$250,000 regardless of number of units in a building. In June 2015, the revised Guidelines increased this amount to \$300,000 per unit. In September 2016, the Guidelines were revised once again and raised the maximum City subsidy per unit to \$400,000 establishing the policy that: "In extreme cases,

where eviction of vulnerable tenants...is imminent, [the] City will consider additional City subsidy on a case-by-case basis but in no case will City subsidy exceed \$400,000 per unit.” The 2016 Guidelines also established a maximum City subsidy per unit of \$300,000 for buildings with 10 to 25 units, \$350,000 for buildings of three to nine units and \$150,000 per bedroom for group or single room occupancy housing. The 2017 Guidelines maintained the overall limit of \$400,000 per unit while increasing the limits based on building size to the levels shown in Exhibit 6.2. MOHCD staff report that they are currently working with program stakeholders to revise the Small Sites Program Guidelines and are considering further increases to the subsidy per unit limits.

It is reasonable that these Guidelines would change over time especially in the early years of the Program. However, the regular increases in maximum allowable subsidy and potential further increases raise the question of tradeoffs in the use of City funding for the Program. While preserving one unit is cheaper than building one new unit, there are many other sources of funding for new development outside of City funds, resulting in a lower City subsidy per unit for new development.<sup>30</sup> In addition, new development projects tend to be much larger, resulting in economies of scale. As shown in Exhibit 6.2, nearly two-thirds of all Small Sites projects are buildings with three to nine units (32 out of 51 projects). Further, raising the subsidy cap for the Small Sites Program (assuming it restricts MOHCD from funding some projects that exceed the cap) reduces the number of Small Sites projects MOHCD can fund with existing funding sources.

These tradeoffs must be considered within the Program’s goal of contributing to anti-displacement efforts across the City. The Small Sites Program helps prevent the displacement of the existing tenants of buildings purchased by project sponsors through the program and ensures that these units remain affordable. Without Small Sites, sales of these properties would likely otherwise contribute to further displacement of vulnerable City residents. However, the effectiveness of the Small Sites Program at a neighborhood or City-wide scale at achieving anti-displacement goals is unclear. There is not sufficient research to know at what scale Small Sites is contributing to larger anti-displacement efforts or if there are more effective methods of achieving these goals. Understanding the impact of the Program and the tradeoffs are important considerations when determining how to revise subsidy amounts and what exceptions are granted to MOHCD’s subsidy policy. MOHCD should develop explicit policy goals for the Small Sites Program that guide decision-making around the appropriate levels of City subsidy per unit, and in particular the goals should state the importance of dedicating resources to purchase smaller buildings.

## Conclusion

MOHCD often exceeds the limit for the City subsidy to Small Sites projects, generally because smaller housing projects have higher costs per unit and fewer other funding sources than larger affordable

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<sup>30</sup> According to the Planning Department’s 2020 *Affordable Housing Funding, Production, and Preservation White Paper*, the average city subsidy for a sample of 11 new development projects was \$257,000 per unit, or 37% of the average total development costs (\$693,000 per unit). In comparison, the average city subsidy for preservation acquisition projects was \$339,000 per unit, or 80% of total development costs (\$497,000 per unit).

housing developments. City policy makers need to consider the tradeoffs within the Program's goal of contributing to anti-displacement efforts across the City, including the overall financial feasibility of the Program and the optimal size of buildings to be purchased by the Program.

## Recommendations

The MOHCD Director should:

**Recommendation 11:** Evaluate and report to the Board of Supervisors on the appropriate levels of City subsidy per unit for Small Sites projects, including (i) the optimal size of small sites projects to ensure financial feasibility of the projects and of the Small Sites Program, and (ii) an assessment of the Small Sites Program on preventing displacement and maintaining affordability.

**Recommendation 12:** Update the Small Sites Program Guidelines regarding the City's subsidy per unit to establish a clear set of criteria for under what circumstances MOHCD will exceed subsidy per unit guidelines to ensure alignment with policy goals.

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## Conclusion, Costs, and Benefits

MOHCD plays a critical role in addressing the City's need for affordable housing by coordinating the City's housing policies and providing financing for the development and preservation of affordable housing. MOHCD expenditures on multifamily housing grants and loans totaled \$286.7 million in FY 2019-20. However, the development and preservation of affordable housing have been highly concentrated in a few neighborhoods due to zoning requirements, land availability, developer capacity, and the absence of formal policies to evaluate and address the need for affordable housing development and preservation across the City.

While MOHCD has incorporated geographic equity and racial equity criteria into recent solicitations for funding opportunities, MOHCD does not have formal geographic equity or racial equity policies to inform solicitation development and site selection for affordable housing development and preservation. Without formal policies to guide MOHCD's site selection activities, MOHCD risks contributing to existing inequities in affordable housing development or inconsistency in its efforts to promote equitable development. Similarly, MOHCD has recently taken steps to increase the capacity of smaller community-oriented developers, but additional efforts are needed to encourage broader participation. Most new development projects (71 percent) have been awarded to just three organizations, and two-thirds of all Small Sites preservation projects have been awarded to one organization.

Our recommendations are intended to promote equitable access to City resources and opportunities for affordable housing residents and fairness and consistency in solicitation and selection procedures. While many of our recommendations can be implemented using existing resources, the Department may need additional resources for developer capacity building efforts and to study the impact of the Small Sites Program.

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## Mayor's Office of Housing and Community Development Response



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



**London N. Breed**  
Mayor

**Eric D. Shaw**  
Director

June 24, 2021

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 MOHCD Site Acquisitions

The Board of Supervisors directed the Budget and Legislative Analyst (BLA) to conduct a performance audit of the policies and procedures of the Mayor's Office of Housing and Community Development (MOHCD) for the acquisition of sites for the development or preservation of affordable housing. We thank the BLA for their hard work on the audit and appreciate the opportunity to describe our production and preservation work and respond to their recommendations.

Affordable Housing Pipeline

MOHCD along with our partners at the Office of Community Investment and Infrastructure and the Treasure Island Development Authority are working towards meeting Mayor Breed's goal of producing 5,000 units of housing per year, of which one-third would be affordable. We are pleased to report that we have met this affordability goal in 2020 and are on track to meet it for 2021. As of the first quarter of 2021, 3,591 affordable units were in production, either in construction or active predevelopment. In total, we are advancing nearly 11,000 affordable units in the development pipeline through 2030.

Funding and Feasibility Principles

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.

Site Acquisitions

*Production.* The vast majority of the City's site acquisitions for production are through land dedication or development agreement, surplus or public lands and notices of funding availability (NOFA). These site opportunities are evaluated based on statutory or policy requirements such as

those set by the inclusionary program or the specific funding source tied to the NOFA. MOHCD's role is to evaluate these site opportunities for feasibility and accept those that meet statutory and policy requirements.

*Preservation.* The acquisition and preservation of at-risk housing is an anti-displacement strategy. By taking rent controlled or single room occupancy buildings off the speculative market and converting them to permanent affordable housing, we are preventing the displacement of low and moderate-income households from their homes and communities. These site opportunities are located in neighborhoods with a greater share of older multifamily rental stock and significant displacement pressures. MOHCD's role is to evaluate the sites identified by non-profit developers for feasibility and conformance to Small Sites Program guidelines. MOHCD must balance anti-displacement objectives with the long-term sustainability of operating the buildings.

### Geographic Balance

While geographic balance should be a factor, it cannot be the sole determinant of site acquisitions for affordable housing development. The main determinant is feasibility; only sites that meet funding and feasibility principles can advance in the pipeline. Moreover, the severity of the affordable housing crisis necessitates maximizing the number of units we deliver with City subsidy. That means we need to build housing on sites that allow for greater height and density. State policy is also driving funding towards production and preservation projects that demonstrate greatest cost efficiency.

Following feasibility as a determinant, MOHCD also considers the wide range of housing needs across the City. We have plans and strategies that guide those considerations, including our Consolidated Plan, which identifies priority neighborhood revitalization strategy areas for targeting federal funding. Our solicitations are also policy documents that incorporate City priorities like affordable housing production in underserved neighborhoods and the preservation of residential care facilities.

We do not agree with the BLA recommendation that MOHCD should develop a standalone geographic equity policy. Site acquisitions cannot be evaluated through a geographic lens alone, but must meet funding and feasibility principles, maximize the affordable housing units delivered, and align with overarching housing plans and strategies. We are committed to pursuing site opportunities in high opportunity areas and are excited to identify creative models through a newly proposed housing innovation fund. The objective of the fund is to explore alternative options for affordable housing in neighborhoods with limited site opportunities.

### Racial Equity

MOHCD is strongly committed to racial equity. The HOPE SF initiative is a cornerstone of this work as it is deeply rooted in a racial equity and reparations framework. It represents the City's commitment to achieving racial equity by transforming the most disinvested neighborhoods into thriving, inclusive, and mixed-income communities.

We agree with the BLA recommendation that MOHCD continue to develop its Racial Equity Action Plan. MOHCD has been actively engaged in racial equity planning since late 2017. We have already implemented strategies to center racial equity in affordable housing development, including adding a racial equity component to the scoring of solicitations and building the capacity of

developers led by and serving Black, Indigenous, and People of Color. We will continue to work with the Office of Racial Equity to assess policy and programmatic opportunities to advance racial equity in housing development.

### Capacity Building

Building the capacity of affordable housing developers is necessary for advancing the City's affordable housing pipeline. This effort involves developing an organization's technical expertise as well as its infrastructure to acquire, own and manage real estate. To secure tax credits and other funding, project sponsors must not only demonstrate minimum experience but also have a deep understanding of how to best position the project to be competitive and layer multiple sources together. An organization must have staff with this level of expertise as well as a track record of completed projects. Additionally, an organization must have the capability to sustain the long-term operations of its projects.

MOHCD has been supporting capacity building efforts over the years. For production, we have encouraged partnerships between community-based developers and larger developers so that the smaller organizations can gain expertise and experience. For preservation, we awarded \$3.45M in capacity building grants to seven Small Sites developers. The grants provide funding for staffing, program innovation, a District 4 small sites project manager, and development strategies for the Westside.

We agree with the BLA recommendations that MOHCD report on the outcome of existing capacity building grants and formalize and document capacity building strategies. This work will be undertaken by a newly created Capacity Building Program Manager position. The position will focus on the consolidation, strengthening and expansion of the department's capacity building programs targeted towards local community-based organizations, including Small Sites developers, and explore new capacity building programs and structures to increase Black non-profit participation in the development of 100% affordable housing projects.

### Solicitation and Selection Process

*Production.* When development sites or funding opportunities become available, MOHCD issues a solicitation and selects a developer based on a competitive process. In recent years, we have streamlined this process by switching from a Request for Proposals (RFP) to a Request for Qualifications (RFQ) model in response to developer feedback that the application process was costly and onerous. This eliminated the requirement for architectural drawings to be submitted as part the application. Additionally, MOHCD consolidated nine site opportunities into a single multi-site RFQ so that the solicitation and selection process would be efficient for both the applicants and the department.

We agree with the BLA recommendation to establish clear selection panel composition guidelines and conflict of interest controls. It is important that we ensure there is no conflict of interest in our solicitation and selection process.

We do not agree with the BLA recommendations that the solicitation process needs to be standardized. While we support making the process more accessible and increasing the pool of applicants, standardization would not be an effective approach towards those goals. Requiring standard minimum requirements, number of days to respond and project selection criteria won't

solve the capacity challenges that organizations face in applying and competing for projects. Solicitations have varying criteria because housing needs and priorities are both specific and iterative. The criteria for an LGBTQ affirming project will be different than the criteria for a family housing project or a 100% supportive housing project because they serve different populations and require different sets of developer experience.

*Preservation.* When funding for preservation becomes available, MOHCD issues a NOFA and selects sites proposed by project sponsors on a rolling basis. Due to the highly competitive nature of acquisitions on the market, it is imperative that the evaluation of sites be timely and efficient. MOHCD evaluates sites based on criteria in the Small Sites Program Guidelines, which was last updated in 2017 and is currently under review with extensive stakeholder participation. Policies under consideration include revising minimum scoring and per unit subsidy amounts.

We agree with the BLA recommendations to develop a consistent table or rubric in the Small Sites loan evaluation report that assesses a proposed project against selection criteria. These changes will be implemented after the program guidelines and project selection criteria update is completed.

We do not agree with the BLA recommendation to formally document the reasons why every potential Small Sites opportunity that comes to MOHCD was not funded. Given the volume of sites that are proposed by developers or suggested by community groups and Supervisors, formal documentation would be inefficient and impractical. Sites that are not funded or pursued are always as a result of infeasibility, or until sources of funding become depleted.

#### Implementation

MOHCD is committed to implementing the BLA recommendations we are in agreement with to advance the department's Racial Equity Action Plan, document and report on capacity building grants and strategies, establish clear selection panel guidelines and conflict of interest controls for solicitations, and document project feasibility and compliance to the Small Sites Program Guidelines. We can report on the progress of these recommendations in our Annual Report.

We look forward to discussion on all of the 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.

## **Accomplishments**

- Added affordable housing into the City's FY22-31 Capital Plan
- Met the goal of producing and preserving 10,000 affordable units by 2020
- As of Q1 2021, 1,493 100% affordable multifamily rental units are under construction under MOHCD sponsorship, with another 1,860 units in active predevelopment (pre-entitlement or permitting), and 238 units leasing up this quarter. This represents 3,591 units in active new affordable housing production.
- Of the active new affordable housing in production, 824 units are supportive housing units for families, adults, seniors, transitional aged youth and veterans. 100% supportive projects that are under construction include Maceo May, Casa de la Mision (3001 24<sup>th</sup> Street), 53 Colton, 1064-1068 Mission Street, and Mission Bay South Block 9.
- Selected developer teams for nine new construction projects providing over 900 units
- Preserved 44 small and large sites totaling 495 residential units and 30 commercial units
- Supported the acquisition of 362 new permanent supportive housing units through the State Homekey Initiative
- Completed the first four phases of the Alice Griffith HOPE SF public housing revitalization project in Candlestick Point, housing all the original residents of the site for a total of 337 homes
- Completed Sunnydale HOPE SF Parcel Q totaling 55 units with 41 right-to-return units
- Rolled out new policy to allow affordable housing project owners to retain more cash flow to deploy to projects impacted by COVID. To date, we have processed 45 requests to redistribute funds.

## Matrix of Recommendations

	Recommendation	Timeline for Completion	Dept Agree/Disagree	Dept Comments
1	Establish a geographic equity policy that addresses the following: (i) How affordable housing needs by neighborhood will be assessed and monitored; (ii) How geography will be considered in funding determinations for developer-selected sites, including solicitation minimum requirements and evaluation criteria; (iii) Strategies to acquire land in prioritized neighborhoods, including possible surplus land identified by other agencies; and (iv) Strategies to partner with the Planning Department to address potential constraints.	12 Months	Disagree	Disagree with need to create standalone geographic equity policy
2	Continue to develop the Racial Equity Action Plan and ensure it outlines how racial equity will be used to guide future solicitation development, site selection, and funding decisions.	18 Months	Agree	
3	Provide annual reporting on the geographic equity and racial equity metrics and goals established by the geographic equity policy and racial equity policy.	18 Months	Disagree	Disagree with need to create standalone geographic equity policy; racial equity policy should be guided by MOHCD's Racial Equity Action Plan and must comply with fair housing

				laws
4	Evaluate and recommend to the Board of Supervisors options for ongoing capacity building for Small Sites developers, including reporting on the outcome of the Capacity Building Grants in MOHCD's Annual Progress Report or another public report, and options for future grants.	18 Months	Agree	
5	Establish and document a policy and set of criteria that clearly states: (a) how geography will be considered when evaluating preservation and acquisition projects for funding; and (b) how MOHCD will monitor and address preservation needs by neighborhood.	12 Months	Disagree	(a) Disagree with need to create standalone geographic equity policy; (b) preservation needs by neighborhood already documented through annual Housing Balance Report
6	Formalize and document MOHCD's strategy for building capacity for smaller, community-oriented organizations, especially those led by Persons of Color.	12 Months	Agree	
7	Establish standard guidelines for minimum requirements for respondents (including standard Qualifying Project criteria by project type), number of days to respond, project selection criteria, selection panel composition, and conflict of interest controls.	6 Months	Disagree, except for creating selection panel criteria and conflict of interest controls	Disagree with need to create standardized solicitation and selection criteria
8	Formalize and document MOHCD's application review	6 Months	Partially agree	(a) Application checklist already being

	<p>process for potential Small Sites and Downtown Neighborhood projects, including documentation standards, to ensure consistency and transparency in the process. The documented policy should address the following: (a) how project managers should ensure application materials are consistently received for all projects considered; (b) a process for formally documenting MOHCD's initial assessment of conformance to underwriting and program guidelines (prior to issuing a letter of support); and (c) a process (which could be a checklist or matrix) for formally documenting when a project is not chosen for funding and why.</p>			<p>utilized by project managers (b) agree (c) disagree that formal documentation is needed for projects not funded</p>
9	<p>Develop a consistent table or rubric to include in the loan evaluation report that assesses the proposed project against evaluation criteria and program guidelines. This rubric should easily and clearly communicate when a project is not meeting guidelines and why an exception is being made.</p>	6 Months	Agree	
10	<p>Update future Small Sites and Downtown Neighborhood NOFAs to: (a) ensure material requirements reflect the materials needed for initial consideration</p>	12 Months	Agree	



	of an application; and (b) ensure that the application review process description reflects MOHCD practices, including describing in more detail the evaluation process for applications that are not received at the same time as others.			
11	Evaluate and report to the Board of Supervisors on the appropriate levels of City subsidy per unit for Small Sites projects, including (i) the optimal size of small sites projects to ensure financial feasibility of the projects and of the Small Sites Program, and (ii) an assessment of the Small Sites Program on preventing displacement and maintaining affordability.	18 Months	Agree	
12	Update the Small Sites Program Guidelines regarding the City's subsidy per unit to establish a clear set of criteria for under what circumstances MOHCD will exceed subsidy per unit guidelines to ensure alignment with policy goals.	12 Months	Agree	

# Introduction Form

By a Member of the Board of Supervisors or Mayor

Time stamp  
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning : "Supervisor  inquiries"
- 5. City Attorney Request.
- 6. Call File No.  from Committee.
- 7. Budget Analyst request (attached written motion).
- 8. Substitute Legislation File No.
- 9. Reactivate File No.
- 10. Topic submitted for Mayoral Appearance before the BOS on

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

**Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.**

Sponsor(s):

Mar; Preston

Subject:

Hearing - Budget and Legislative Analyst's Performance Audit - Affordable Housing Development and Preservation

The text is listed:

Hearing on the findings and recommendations of the Budget and Legislative Analyst's performance audit of the Mayor's Office of Housing and Community Development's policies and procedures for affordable housing development and preservation; and requesting the Budget and Legislative Analyst, Mayor's Office of Housing and Community Development, and Department of Homelessness and Supportive Housing to report.

Signature of Sponsoring Supervisor: /s/ Gordon Mar