

File No. 150496

Committee Item No. 2

Board Item No. 39

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Land Use & Transportation

Date SEPT 21, 2015

Board of Supervisors Meeting

Date September 29, 2015

Cmte Board

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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Completed by: Andrea Ausberry Date SEPT 18, 2015

Completed by: _____ Date _____

[Planning Code - Inclusionary Housing Requirements in the Eastern Neighborhoods]

Ordinance amending the Planning Code to eliminate the Rental Incentive from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years; and affirming the Planning Department's determination under the California Environmental Quality Act, and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

NOTE: Unchanged Code text and uncodified text are in plain Arial font. Additions to Codes are in *single-underline italics Times New Roman font*. Deletions to Codes are in *strikethrough italics Times New Roman font*. Board amendment additions are in double-underlined Arial font. Board amendment deletions are in ~~strikethrough Arial font~~. Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Environmental, Planning Code, and General Plan Findings:

(a) The Planning Department has determined that the actions contemplated in this ordinance comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 150496 and is incorporated herein by reference. The Board affirms this determination.

(b) On August 6, 2015, the Planning Commission, in Resolution No. 19425, adopted findings that the actions contemplated in this ordinance are consistent, on balance, with the

1 City's General Plan and eight priority policies of Planning Code Section 101.1. The Board
2 adopts these findings as its own. A copy of said Resolution is on file with the Clerk of the
3 Board of Supervisors in File No. 150496, and is incorporated herein by reference.

4 (c) Pursuant to Planning Code Section 302, this Board finds that this Planning Code
5 Amendment will serve the public necessity, convenience, and welfare for the reasons set forth
6 in Planning Commission Resolution No. 19425, and the Board incorporates such reasons
7 herein by reference.

8
9 Section 2. The Planning Code is hereby amended by revising Section 419.5, to read
10 as follows:

11 **SEC. 419.5. ALTERNATIVES TO THE INCLUSIONARY HOUSING COMPONENT.**

12 * * * *

13 ~~(b) **Rental Incentive.** Qualified rental housing projects, as defined in Section 419.2(a)(1), are~~
14 ~~allowed a reduction in their inclusionary housing requirements as follows:~~

15 ~~(1) If the rental housing project chooses to meets its inclusionary housing requirements~~
16 ~~through on-site construction, off-site construction, or an in-lieu fee, then the project is entitled to a 3%~~
17 ~~reduction in the requirements specified above in subsection (a).~~

18 ~~(2) If the rental housing project chooses to meet its inclusionary housing requirements~~
19 ~~through the land dedication option for projects less than 30,000 square feet, then the project is entitled~~
20 ~~to a 5% reduction in the requirements specified above in the subsection (b)(2).~~

21 ~~(3) In addition, a rental housing project shall receive a fee waiver from the Eastern~~
22 ~~Neighborhood Public Benefit Fee as set forth in Section 427.3 in the amount of \$1.00 per gross square~~
23 ~~foot.~~

24 ~~(4) No rental incentive shall be provided for project that chooses the land dedication~~
25 ~~alternative for projects over 30,000 square feet.~~

1 **(eb) Adjustments to Requirements for the Inclusionary Housing Component.**

2 This Section is intended to incorporate, rather than supersede, any changes made to Planning
3 Code Section 415. In the instance that the base requirements of Section 415 are amended,
4 the above-noted requirements shall be reviewed, and if appropriate, amended and/or
5 increased accordingly.

6
7 Section 3. Effective Date. This ordinance shall become effective 30 days after
8 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
9 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
10 of Supervisors overrides the Mayor's veto of the ordinance.

11
12 Section 4. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors
13 intends to amend only those words, phrases, paragraphs, subsections, sections, articles,
14 numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal
15 Code that are explicitly shown in this ordinance as additions, deletions, Board amendment
16 additions, and Board amendment deletions in accordance with the "Note" that appears under
17 the official title of the ordinance.

18
19 APPROVED AS TO FORM:
20 DENNIS J. HERRERA, City Attorney

21 By: 
22 SUSAN CLEVELAND-KNOWLES
 Deputy City Attorney

23 n:\egana\as2015\1500630\01014902.docx

LEGISLATIVE DIGEST

[Planning Code - Inclusionary Housing Requirements in the Eastern Neighborhoods]

Ordinance amending the Planning Code to eliminate the Rental Incentive from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years; and affirming the Planning Department's determination under the California Environmental Quality Act, and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

Existing Law

Project sponsors of housing projects in the Urban Mixed Use District of the Eastern Neighborhoods Plan Area (UMU) must comply with the Inclusionary Affordable Housing Program, Planning Code Section 415 et seq., but at higher percentages than the general citywide requirement. But, project sponsors of housing projects in the UMU may choose the Rental Incentive or at least two additional alternatives – the Middle Income Alternative or a Land Dedication Alternative – to meet their Inclusionary Housing obligations. The Rental Incentive allows project sponsors to receive a \$1 per gross square foot reduction in the Eastern Neighborhoods Public Benefit fee and a 3% reduction in the Inclusionary Housing requirement in exchange for an agreement to provide the units in the Principal Project as rental housing for not less than thirty years. A project sponsor who chooses the land dedication alternative where its Principal Project is on a site of less than 30,000 square feet may also take advantage of the Rental Incentive and would be entitled to a 5% reduction in its Inclusionary requirements. A project sponsor choosing the Land Dedication alternative for a project located on a site of 30,000 square feet or more or choosing the Middle Income Alternative cannot use the Rental Incentive

Amendments to Current Law

The Proposed Legislation would eliminate the Rental Incentive. The Middle Income and Land Dedication Alternatives would remain.

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SAN FRANCISCO PLANNING DEPARTMENT

August 7, 2015

Ms. Angela Calvillo, Clerk
Honorable Supervisor Kim
Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

1650 Mission St.
Suite 400
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Re: Transmittal of Planning Department Case Number 2015-006717PCA:
Eliminate Rental Incentive Program from Eastern Neighborhoods
Board File No. 150496
Planning Commission Recommendation: Approval

Dear Ms. Calvillo and Supervisor Kim,

On August 6, 2015, the Planning Commission conducted duly noticed public hearings at regularly scheduled meetings to consider the proposed Ordinance to eliminate the Rental Incentive program from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years. The ordinance was introduced by Supervisor Cohen. At the hearing the Planning Commission recommended approval.

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c) and 15378 because they does not result in a physical change in the environment.

Please find attached documents relating to the actions of the Commission. If you have any questions or require further information please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Aaron D. Starr", written over a horizontal line.

Aaron D. Starr
Manager of Legislative Affairs

cc:
Susan Cleveland-Knowles, Deputy City Attorney
Danny Yadegar, Aide to Supervisor Kim
Andrea Ausberry, Office of the Clerk of the Board.

Attachments:
Planning Commission Resolution
Planning Department Executive Summary

www.sfplanning.org



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Resolution No. 19425

HEARING DATE AUGUST 6, 2015

Project Name: Eliminate Rental Incentive Program from Eastern Neighborhoods
Case Number: 2015-006717PCA [Board File No. 150496]
Initiated by: Supervisor Kim / Introduced May 12, 2015
90-day Deadline: August 26, 2015
Staff Contact: Aaron Starr, Manager of Legislative Affairs
aaron.starr@sfgov.org, 415-558-6362
Recommendation: Recommend Approval

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RECOMMENDING THAT THE BOARD OF SUPERVISORS ADOPT A PROPOSED ORDINANCE THAT WOULD AMEND THE PLANNING CODE TO ELIMINATE THE RENTAL INCENTIVE FROM THE EASTERN NEIGHBORHOOD URBAN MIXED USE DISTRICTS THAT PERMITS PROJECT SPONSORS TO LOWER THEIR INCLUSIONARY AFFORDABLE HOUSING REQUIREMENTS AND APPLICABLE EASTERN NEIGHBORHOOD PUBLIC BENEFIT FEE BY AGREEING TO MAINTAIN THE UNITS IN THEIR MARKET RATE DEVELOPMENT AS RENTAL UNITS FOR 30 YEARS; AND AFFIRMING THE PLANNING DEPARTMENT'S DETERMINATION UNDER THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, AND MAKING FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN, AND THE EIGHT PRIORITY POLICIES OF PLANNING CODE, SECTION 101.1.

WHEREAS, on October 22, 2013, Supervisors Kim introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 150496, which would amend the Planning Code to eliminate the Rental Incentive program from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years; and,

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance on August 6, 2015; and,

WHEREAS, the proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c) and 15378 because they do not result in a physical change in the environment; and

WHEREAS, the Planning Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of Department staff and other interested parties; and

WHEREAS, all pertinent documents may be found in the files of the Department, as the custodian of records, at 1650 Mission Street, Suite 400, San Francisco; and

WHEREAS, the Planning Commission has reviewed the proposed Ordinance; and

MOVED, that the Planning Commission hereby recommends that the Board of Supervisors **approve** the proposed ordinance.

FINDINGS

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

1. The Commission supports the elimination of the Eastern Neighborhood's Rental Incentive program because it is no longer needed; making the loss of inclusionary units and the loss of impact fees unjustified.
2. The Commission finds that the increase in the number of rental units constructed in the City has dramatically increased since 2009, even without projects utilizing the rental incentive program. At the same time, this program has cost the City 13 units of inclusionary housing, representing close to four million dollars, in addition to a loss of \$412,985 in Eastern Neighborhood Public Benefit Fees.
3. The Commission finds that the City should be maximizing its current inclusionary housing program to help meet the 33% affordability goal established by the voters in Proposition K, not providing exceptions to it where there is no longer adequate justification.
4. The Commission finds that the market for rental units is cyclical, and it will likely change in the future. When this day comes the City will be able to identify that trend, as the Planning Department actively monitors the City's housing production through several mandated reports, and respond accordingly.
5. **General Plan Compliance.** The proposed amendments to the Planning Code are not addressed in the General Plan; the Commission finds that the proposed Ordinance is consistent with the following Objectives and Policies of the General Plan.

**MISSION, SHOW PLACE SQUARE/POTRERO HILL, AND CENTRAL
WATERFRONT AREA PLANS**

HOUSING

OBJECTIVE 2.1

ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN

THE MISSION SHOW PLACE SQUARE/POTRERO HILL AND THE CENTRAL WATERFRONT IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES

Policy 2.1.1

Require developers in some formally industrial areas to contribute towards the City's very low-, low-, moderate- and middle-income needs as identified in the Housing Element of the General Plan.

Policy 2.1.2

Provide land and funding for the construction of new housing affordable to very low and low income households.

The Proposed Ordinance will require developers in UMU Districts to meet their full obligation under the City's Inclusionary Housing program in unit construction, in-lieu fee payment, or land dedication.

OBJECTIVE 2.3

REQUIRE THAT A SIGNIFICANT NUMBER OF UNITS IN NEW DEVELOPMENTS HAVE TWO OR MORE BEDROOMS EXCEPT SENIOR HOUSING AND SRO DEVELOPMENTS UNLESS ALL BELOW MARKET RATE UNITS ARE TWO OR MORE BEDROOM UNITS

Policy 2.3.6

Establish an impact fee to be allocated towards an Eastern Neighborhoods Public Benefit Fund to mitigate the impacts of new development on transit, pedestrian, bicycle, and street improvements, park and recreational facilities, and community facilities such as libraries, child care and other neighborhood services in the area.

The proposed Ordinance will ensure that developers pay their full Eastern Neighborhoods Impact Fees to mitigate the impact of new development on transit, pedestrian, bicycle, and street improvements, park and recreational facilities, and community facilities such as libraries, child care and other neighborhood services in the area.

6. **Planning Code Section 101 Findings.** The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

The proposed Ordinance would not have an adverse effect on neighborhood serving retail uses and will not affect opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to

preserve the cultural and economic diversity of our neighborhoods;

The proposed Ordinance would not have an adverse effect on existing housing or neighborhood character.

3. That the City's supply of affordable housing be preserved and enhanced;

The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing. The proposed Ordinance will ensure that developers pay their full inclusionary housing requirement by eliminating the rental incentive program.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking;

The proposed Ordinance would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced;

The proposed Ordinance would not cause displacement of the industrial or service sectors due to office development, and future opportunities for resident employment or ownership in these sectors would not be impaired.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake;

The proposed Ordinance would not have an adverse effect on City's preparedness against injury and loss of life in an earthquake.

7. That the landmarks and historic buildings be preserved;

The proposed Ordinance would not have an adverse effect on the City's Landmarks and historic buildings.

8. That our parks and open space and their access to sunlight and vistas be protected from development;

The proposed Ordinance would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas.

8. **Planning Code Section 302 Findings.** The Planning Commission finds from the facts presented that the public necessity, convenience and general welfare require the proposed amendments to the Planning Code as set forth in Section 302.

Resolution 19425
August 6, 2015

CASE NO. 2015-006717PCA
Eliminate Rental Incentive Program

NOW THEREFORE BE IT RESOLVED that the Commission hereby recommends that the Board ADOPT the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on August 6, 2015.

Jonas P. Ionin
Commission Secretary

AYES: Antonini, Fong, Hillis, Johnson, Moore, Wu,

NOES: none

ABSENT: Richards

ADOPTED: August 6, 2015



SAN FRANCISCO PLANNING DEPARTMENT

Executive Summary Planning Code Text Amendment HEARING DATE: AUGUST 6, 2015

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Project Name: Eliminate Rental Incentive Program from Eastern Neighborhoods
Case Number: 2015-006717PCA [Board File No. 150496]
Initiated by: Supervisor Kim / Introduced May 12, 2015
90-day Deadline: August 26, 2015
Staff Contact: Aaron Starr, Manager of Legislative Affairs
aaron.starr@sfgov.org, 415-558-6362
Recommendation: Recommend Approval

PLANNING CODE AMENDMENT

Ordinance amending the Planning Code to eliminate the Rental Incentive program from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years.

The Way It Is Now:

1. In Eastern Neighborhood UMU Districts, projects where the applicant has agreed to limit the units to rental for at least 30 are allowed a reduction in their inclusionary housing requirements as follows:
 - a) If the project sponsor chooses to meet their inclusionary housing requirements through on-site construction, off-site construction, or an in-lieu fee, then the project is entitled to a 3% reduction in the Inclusionary Affordable Housing requirements.
 - b) If the project sponsor chooses to meet their inclusionary housing requirements through the land dedication option for projects less than 30,000 square feet, then the project is entitled to a 5% reduction in the amount of land required to be dedicated. (No rental incentive is provided for projects over 30,000 square feet that choose the land dedication alternative)
2. In Eastern Neighborhood UMU Districts, projects where the applicant has agreed to limit the units to rental for at least 30 also receive a fee waiver from the Eastern Neighborhood Public Benefit Fee in the amount of \$1.00 per gross square foot.

The Way It Would Be:

1. Projects in the Eastern Neighborhoods UMU would no longer receive a reduction in the amount of inclusionary housing requirement for dedicating their units as rental for at least 30 years.
2. Projects in the Eastern Neighborhoods UMU would no longer receive a \$1.00 per square foot reduction in Eastern Neighborhood Public Benefit Fee for dedicating their units as rental for at least 30 years.

BACKGROUND

The Eastern Neighborhoods Rental Incentive program was created to incentivize the construction of rental housing in UMU Districts by reducing construction costs through fee and inclusionary housing requirement reductions. This program was created when the Eastern Neighborhood Plans were being developed, and was based on the premise that rental housing was not financially feasible. This idea came from a report commissioned by the Planning Department in April 2007¹ that found, at the time, rental housing was less financial feasible than owner occupied housing. The report also stated that rents were trending upward at the time, and that some first time home buyers were taking a "wait and see" approach to purchasing a house, suggesting that rental housing may soon become more financially feasible because of increased rents and demand. The following is an excerpt from the report:

Development of new market rate apartments (with conventional financing) is generally not feasible in San Francisco and in most cities in the U.S. in the current cycle of the real estate development market due to a combination of factors. Over the past several years, historically low mortgage rates have propelled the homebuyer market, driving strong value escalations affecting all home ownership products from condominiums to single family detached homes, to vacation homes, etc. In addition, low mortgage rates have enabled renters to enter homeownership at unprecedented rates, leaving the rental housing stock with vacancies that have not been rapidly refilled due to weak job growth.

Over the past year, the number of home sales has decreased significantly and prices have leveled off or declined slightly in some markets (although there is little evidence of decline in San Francisco). Rents have trended upwards in the San Francisco in response to job growth, and would be first-time homebuyers are taking a "wait and see" approach to entry into the ownership market. If these trends continue or other conditions change, new rental buildings could become feasible again. In any case, the analysis must anticipate that at some point in the future, the market will produce new market rate rental projects subject to the inclusionary program.

As the report suggested, rental housing has become more financially feasible over time; however it isn't entirely clear why. Both average rents² and the cost of construction³ have increased significantly in the past 8 years, however rents for apartments in some of Eastern Neighborhoods command a higher rent than most other areas in the City⁴. Whatever the cause, it is clear that developers are finding it more financially feasible to construct rental housing throughout San Francisco.

Since 2009, San Francisco has seen a dramatic rise in the number of rental units constructed in the City. While rental units were around 30% of the total city wide units completed in 2009, this percentage

¹ Residential Nexus Analysis City and County of San Francisco, Prepared by: Keyser Marston Associates, Inc., April, 2007.

² O'Brien, Davin. "San Francisco rent prices continue rapid rise through February." Zumper.com. March 3, 2015. Web July 29, 2015.

³ Weinberg, Corey. "Building Costs go through the roof: The Bay Area's new affordability crisis. The SF Business Times. November 21, 2014. Web July 29, 2015.

⁴ Erwert, Anna Marie. "Depressing San Francisco median rent map shows rents up all over the city." SFGate. March 9, 2015. Web July 29, 2015.

increased to over 50% in 2012. In 2013, 90% of all units completed in the City were rental, and in 2014 close to 79% of all units completed in the City were rental. The number of rental units in the Eastern Neighborhoods has followed a similar trend. In 2009, there were no rental projects in the Eastern Neighborhoods Area, but by 2012 close to 78% of all units were offered for rental, with the percentage around 80% in 2013 and 2014. Clearly there is a continuing trend to construct more rental housing in the City and that trend appears that it will continue into the foreseeable future.

COMPLETED RENTAL PROJECTS CITYWIDE

Year	Total Net Units (10+ unit)	Total Net Rental Units (10+ units)	Total Net Ownership Units (10+ units)	Net Rental as % of Total Net Units
2009	2421	742	1679	30.65%
2010	765	221	544	28.89%
2011	123	38	85	30.89%
2012	946	481	465	50.85%
2013	1870	1683	187	90.00%
2014	3358	2646	712	78.80%

COMPLETED RENTAL PROJECTS IN THE EASTERN NEIGHBORHOODS

Year	Total Net Units (10+ unit)	Total Net Rental Units (10+ units)	Total Net Ownership Units (10+ units)	Net Rental as % of Total Net Units
2009	580	0	580	0.00%
2010	218	49	169	22.48%
2011	0	0	0	0.00%
2012	405	315	90	77.78%
2013	335	289	46	86.27%
2014	753	631	122	83.80%

ISSUES AND CONSIDERATIONS

Eastern Neighborhoods Planning Process

The Eastern Neighborhoods community planning process began in 2001 with the goal of developing new zoning controls for the industrial portions of East SoMa, the Mission, and Showplace Square/Potrero Hill, Central Waterfront and Western SoMa⁵. A series of workshops were conducted in each area where

⁵ Western SOMA is now considered an Eastern Neighborhood; however at the time the area was given its own, separate planning process based on community feedback. The Central Waterfront area was not included in these interim controls.

stakeholders articulated goals for their neighborhood, considered how new land use regulations might promote these goals, and created several rezoning options representing variations on the amount of industrial land to retain for employment and business activity. In February 2004, the Planning Commission established interim policies for three of the Eastern Neighborhoods including East SoMa, the Mission, and Showplace Square/Potrero Hill to be in effect until permanent zoning is established.

Starting in 2005, the community planning process expanded to address other issues critical to these communities including affordable housing, transportation, parks and open space, urban design and community facilities. Extensive public outreach was done to solicit feedback from neighbors and stakeholder. The draft Eastern Neighborhood Area Plans were released in December 2007 for public comment. In April 2008, the Planning Commission voted to initiate the adoption process for the Area Plans. In spring 2008, a series of adoption hearings were held to evaluate the Plans before they are formally adopted and become part of the City's General Plan.

To implement the Area Plan policy documents, the Eastern Neighborhoods Program included new zoning controls that specify what land uses will be permitted. The Plans propose a variety of different mixed-use zones, to accommodate unique characteristics of different neighborhoods. These range from neighborhood commercial zones, which call for a mix of residences and retail, to other zones which bring PDR (Production, Distribution, and Repair) into the mix.

Affordable Housing in Eastern Neighborhoods

The Eastern Neighborhoods proposals encourages about 7,500 -10,000 new housing units over 20 years. The Plans strive to provide new housing that meets the needs of low, moderate and middle income individuals and families. In addition to the City's existing Inclusionary Housing Ordinance, which requires that market-rate developments larger than 10 units provide 12 percent of their units at below market rate, the Plans require higher percentages of affordable housing in formerly industrial areas, provide new options to develop land for affordable housing, and provide funding for affordable housing production through new fees.

Urban Mixed-Use Zones (UMU)

Within the five eastern neighborhood plan areas, UMU districts are found in three; Mission, Show Place Square/Potrero Hill, and Central Waterfront (See Exhibit B). Properties currently zoned UMU were zoned either M-1 (Light Industrial), M-2 (Heavy Industrial) or C-M (Commercial, Manufacturing, no longer in use) prior to the adoption of the Eastern Neighborhoods Plan. The UMU District is intended to promote a vibrant mix of uses while maintaining the characteristics of this formerly industrially-zoned area. It is also intended to serve as a buffer between residential districts and PDR districts in the Eastern Neighborhoods. Within the UMU, allowed uses include production, distribution, and repair uses such as light manufacturing, home and business services, arts activities, warehouse, and wholesaling. Additional permitted uses include retail, educational facilities, and nighttime entertainment.

Housing is also permitted in UMU Districts, but is subject to higher affordability requirements. This higher inclusionary requirement is based on the increase in heights that the Eastern Neighborhoods process brought about. Tying higher inclusionary requirements to increased height limits allows the City to value capture the increased development potential on these properties. The higher inclusionary

requirements were also one of the reasons that the UMU district was chosen to allow a reduction in the inclusionary requirements. The inclusionary requirements for UMU Districts are as follows:

**PLANNING CODE TABLE 419.5
HOUSING REQUIREMENTS FOR THE UMU DISTRICT**

Tier	On-Site Housing Requirement	Off-Site/In-Lieu Requirement	Middle Income Alternative*	Land Dedication Alternative for sites that have less than 30,000 square feet of developable area	Land Dedication Alternative for sites that have at least 30,000 square feet of developable area
A	14.4%	23%	30%	35%	30%
B	16%	25%	35%	40%	35%
C	17.6%	27%	40%	45%	40%

The Tiers in Table 419.5 correspond to the following:

- "Tier A."
 - All development on sites within the UMU District which received a height increase of eight feet or less, no height increase, or received a reduction in height; as part of the Eastern Neighborhoods Plan (on file with the Clerk of the Board of Supervisors in File No. 081154), and all sites within the Mission NCT District utilizing the land dedication alternative specified in Section 419.5(a)(2).
 - All changes of use within existing structures.
- "Tier B." All development on sites within the UMU District which received a height increase of nine to 28 feet as part of the Eastern Neighborhoods Plan.
- "Tier C." All development on sites within the UMU District which received a height increase of 29 feet or more as part of the Eastern Neighborhoods Plan.

Eastern Neighborhoods Public Benefits Fee

The Eastern Neighborhoods Plans proposed a full array of public benefits to ensure the development of complete neighborhoods, including open space, improved public transit, transportation, streetscape improvements, community facilities, and affordable housing. To help fund these community improvements the Plans put in place an impact fee on new residential and commercial development as well as identifying other funding sources. For residential projects, the fee is approximately \$9.50 a square foot, but the fee varies and is calculated based on 15 different impacts; the location of the project, and the proposed land use. As mentioned above, the UMU Rental Incentive agreement also allows for a \$1.00 per gross square foot reduction in these fees for qualifying projects.

Rental Incentive Agreement Projects

So far there have been three projects that have utilized the Rental Incentive Agreement. None of these units have been complete; therefore they are not included in the percentages report in the charts on page 3. Together they account for a total loss of 13 inclusionary units, or close to four million dollars in cost savings to developers, in addition to a \$412,985 loss to the Eastern Neighborhood Public Benefit Fee. The following is a breakdown of the benefits those three projects received.

1. 1201-1225 Tennessee Street, 259 dwelling units
Loss of 7 Inclusionary Units
\$2,384,232 cost savings to developer
\$210,000 loss in EN Public Benefit Fees to the City
2. 2051 Third Street, 94 dwelling units
Loss of 3 Inclusionary Units
\$739,732 cost savings to developer
\$106,960 loss in EN Public Benefit Fees to the City
3. 2121 Third Street, 106 dwelling units
Loss of 3 inclusionary Units
\$799,715 cost savings to developer
\$96,025 loss in EN Public Benefit Fees to the City

Prop K and the Housing Balance Monitoring Report

On November 2014, San Francisco's voters endorsed Proposition K, which set a goal of 33% of all new housing units to be affordable. Housing production targets in the City's Housing Element adopted in April 2015 includes 28,870 new units built between 2015 and 2022, 57% of which should be affordable. The Housing Balance Report tracks performance toward meeting the goals set by Proposition K and the City's Housing Element.

The Planning Department published the first housing balance monitoring report in July of this year and it showed that the City is not meeting its 33% affordable housing goal in Prop K. The report shows that the cumulative housing balance for 2005-2014 is 21% Citywide. For the three supervisorial districts covered in the Easter Neighborhoods Plan Area - Districts 6, 9, and 10 - those percentages are 27.2, 3.4, and 36.2 respectively. For the Mission District the South of Market Area, two plan areas covered by the Eastern Neighborhoods Plan Area and included in in the Housing Balance Report, those percentages are 11.5 and 19.2 respectively.

REQUIRED COMMISSION ACTION

The proposed Ordinance is before the Commission so that it may recommend adoption, rejection, or adoption with modifications to the Board of Supervisors.

RECOMMENDATION

The Department recommends that the Commission recommend *approval* of the proposed Ordinance and adopt the attached Draft Resolution to that effect.

BASIS FOR RECOMMENDATION

The Department supports the elimination of the Eastern Neighborhood's Rental Incentive Agreement because it is no longer needed; making the loss of inclusionary units and the loss of impact fees unjustified. The increase in the number of rental units constructed in the City has dramatically increased since 2009, even without projects utilizing the rental incentive agreement program. At the same time, this

program has cost the City 13 units of inclusionary housing, representing close to four million dollars, in addition to a loss of \$412,985 in Eastern Neighborhood Public Benefit Fees. While the loss of 13 units may not seem like a lot, the City is struggling to reach the 33% affordability goal set by the voters through proposition K, and funds to construct more affordable housing are already spread very thin. The City should be maximizing our current inclusionary housing program to help meet the 33% affordability goal, not providing exceptions to it where there is no longer adequate justification.

The market for rental units is cyclical, and it will likely change in the future. When this day comes the City will be able to identify that trend, as the Planning Department actively monitors the City's housing production through several mandated reports, and respond accordingly.

ENVIRONMENTAL REVIEW

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c) and 15378 because they do not result in a physical change in the environment.

PUBLIC COMMENT

As of the date of this report, the Planning Department has not received any public comment regarding the proposed Ordinance.

RECOMMENDATION:	Recommendation of Approval
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Attachments:

- Exhibit A: Draft Planning Commission Resolution
- Exhibit B: Map of Eastern Neighborhoods and UMU Districts
- Exhibit C: Board of Supervisors File No. 150496

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

May 22, 2015

File No. 150496

Sarah Jones
Environmental Review Officer
Planning Department
1650 Mission Street, 4th Floor
San Francisco, CA 94103

Dear Ms. Jones:

On May 12, 2015, Supervisor Kim introduced the following legislation:

File No. 150496

Ordinance amending the Planning Code to eliminate the Rental Incentive from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years; and affirming the Planning Department's determination under the California Environmental Quality Act, and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

A handwritten signature in cursive script, appearing to read "A. Ausberry".

By: Andrea Ausberry, Assistant Clerk

Attachment

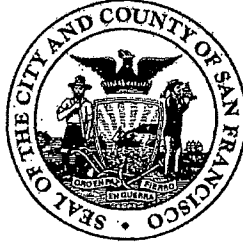
cc: Joy Navarrete, Environmental Planning
Jeanie Poling, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it does not result in a physical change in the environment.

Joy
Navarrete

Digitally signed by Joy Navarrete
DN: cn=Joy Navarrete,
o=Planning, ou=Environmental
Planning,
email=joy.navarrete@sfgov.org,
c=US
Date: 2015.06.04 15:56:04 -07'00'

BOARD of SUPERVISORS



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MEMORANDUM

TO: Olson Lee, Director, Mayor's Office of Housing & Community Development
Delene Wolf, Executive Director, Rent Board

FROM: Andrea Ausberry, Assistant Clerk, Land Use and Transportation Committee,
Board of Supervisors

DATE: May 22, 2015

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Land Use and Transportation Committee has received the following legislation, introduced by Supervisor Kim on May 12, 2015:

File No. 150496

Ordinance amending the Planning Code to eliminate the Rental Incentive from the Eastern Neighborhood Urban Mixed Use Districts that permits project sponsors to lower their Inclusionary Affordable Housing requirements and applicable Eastern Neighborhood Public Benefit Fee by agreeing to maintain the units in their market rate development as rental units for 30 years; and affirming the Planning Department's determination under the California Environmental Quality Act, and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

If you have any additional 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:
Eugene Flannery, Secretary
Sophie Hayward, Policy Legislative Affairs

BOARD of SUPERVISORS



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May 22, 2015

File No. 150496

Sarah Jones
Environmental Review Officer
Planning Department
1650 Mission Street, 4th Floor
San Francisco, CA 94103

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This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

A handwritten signature in cursive script, appearing to read "A. Ausberry".

By: Andrea Ausberry, Assistant Clerk

Attachment

cc: Joy Navarrete, Environmental Planning
Jeanie Poling, Environmental Planning

Introduction Form

By a Member of the Board of Supervisors or the Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCOMAY 12 PM 1:05
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 [] inquires"
- ☐ 5. City Attorney request.
- ☐ 6. Call File No. [] from Committee.
- ☐ 7. Budget Analyst request (attach written motion).
- ☐ 8. Substitute Legislation File No. []
- ☐ 9. Reactivate File No. []
- ☐ 10. Question(s) 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 a Imperative Form.**Sponsor(s):**

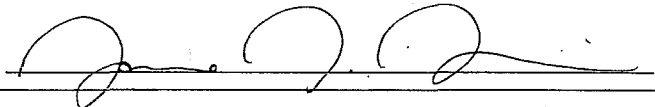
Supervisor Jane Kim

Subject:

Planning Code - Inclusionary Housing Requirements in Eastern Neighborhoods

The text is listed below or attached:

See attached.

Signature of Sponsoring Supervisor: **For Clerk's Use Only:**