File No. 160557

Committee Item No. 1
Board Item No. ____

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget & Finance Committee **Date** June 29, 2016

Board of Supervisors Meeting **Date** ____

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Completed by: Linda Wong **Date** June 24, 2016
Completed by: Linda Wong **Date** ____

FILE NO. 160557 RESOLUTION NO.

[General Obligation Bond Election - Amending Earthquake Loan Bond Program to Finance Permanent Affordable Housing - $350,000,000]

Resolution determining and declaring that the public interest and necessity demand the acquisition, improvement and rehabilitation and conversion of "at-risk" multi-unit residential buildings to permanent affordable housing and performing needed seismic, fire, health, and safety upgrades, and other major rehabilitation for habitability, to be financed through bonded indebtedness in an amount not to exceed $350,000,000; providing for the levy and collection of taxes to pay both principal and interest on such bonds; setting certain procedures and requirements for the election; adopting findings under the California Environmental Quality Act; and finding that the proposed bond is in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

WHEREAS, On November 3, 1992, the voters of the City and County of San Francisco approved the issuance of up to $350,000,000 of General Obligation Bonds for a Seismic Safety Loan Program (referred to herein as "Proposition A") to provide loans for the seismic strengthening of unreinforced masonry buildings, including specifically $200,000,000 to be allocated for "market-rate residential, commercial and institutional buildings . . . " (the "Market Rate Loan Program"); and

WHEREAS, Proposition A was intended to provide a source of financing for private loans for strengthening unreinforced masonry affordable housing and other privately buildings to withstand a strong earthquake to safeguard the health and safety of City residents; and

WHEREAS, Participation in the Market Rate Loan Program has been modest, and there remains $150,000,000 of authorized but unused bond capacity under such program; and

WHEREAS, The City has the highest median rent in the country with a one-bedroom asking rent of $3,460, according to rental listing site Zumper, and the City continues to be one of the highest-priced ownership markets in the country with a median home sales price in 2015 of $1.1 million, a 19.4% increase from the previous year, according to the real estate website Trulia; and

WHEREAS, The City continues to see a widening affordability gap for low- to moderate-income households for both rental housing and homeownership; and

WHEREAS, Limited state and federal resources and the high cost of housing development puts a greater burden on local governments to contribute their own limited resources, and thus means that the City's supply of affordable housing has not kept pace with demand; and

WHEREAS, The affordability gap has the greatest impact on low-income households such as seniors, disabled persons, low-income working families, and veterans; and

WHEREAS, The housing need in the City is also particularly acute for moderate-income households, for whom there are no federal or state financing programs that the City can leverage with its own subsidies; and

WHEREAS, The housing affordability gap that has arisen and expanded in the local housing market inhibits the City from ensuring that economic diversity can be maintained; and

WHEREAS, These high housing costs can inhibit healthy, balanced economic growth regionally; and

WHEREAS, Individuals and families who are increasingly locked out of the local housing market will be forced to leave the City and take on increasingly long employment commutes; and

WHEREAS, The City has determined to present to the voters an amendment of Proposition A to add to the purposes to which funds allocated to the Market Rate Loan

Program can be used to include as an additional purpose loans for the acquisition, improvement, and rehabilitation of at-risk multi-unit residential properties for the purpose of converting such properties to permanent affordable housing and performing needed seismic, fire, health, and safety upgrades, and other major rehabilitation for habitability (as further described in Section 3 below); and

WHEREAS, San Francisco has lost approximately 14,000 low-cost residential hotel units over the last 40 years due to conversions, a number that is almost twice our current homeless population; and

WHEREAS, The expansion of the Market Rate Loan program to accommodate loans to at risk multi-unit buildings will help maintain affordable housing stock for City residents; and

WHEREAS, Amending the Market Rate Loan Program established under Proposition A will provide a portion of the funding necessary to acquire, improve, rehabilitate, preserve, and repair at risk multi-unit affordable housing in the City; now, therefore, be it

RESOLVED, By the Board of Supervisors:

Section 1. The Board of Supervisors determines and declares that the public interest and necessity demand the acquisition, improvement, rehabilitation, and preservation of affordable housing in the City for low- and middle-income households, and the payment of related costs necessary or convenient for the foregoing purposes.

Section 2. The Bonds will fund capital projects that will prioritize vulnerable populations such as the City's working families, veterans, seniors, and disabled persons and will assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; and will repair and reconstruct dilapidated public housing.

Section 3. The estimated cost of $350,000,000 of the Bonds previously authorized under Proposition A is and will be too great to be paid out of the ordinary annual income and revenue of the City, will require an expenditure greater than the amount allowed by the annual tax levy, and will require the incurrence of bonded indebtedness in an amount not to exceed $350,000,000.

Section 4. The Board of Supervisors, having reviewed the proposed legislation, makes the following findings in compliance with the California Environmental Quality Act ("CEQA"), California Public Resources Code Sections 21000 et seq., the CEQA Guidelines, 15 Cal. Administrative Code Sections 15000 et seq., ("CEQA Guidelines"), and San Francisco Administrative Code Chapter 31 ("Chapter 31"): The Environmental Review Officer determined that this legislation is not defined as a project subject to CEQA because it is a funding mechanism involving no commitment to any specific projects at any specific locations, as set forth in CEQA Guidelines Section 15378.

Section 5. The Board of Supervisors finds and declares that the proposed Bond (a) was referred to the Planning Department in accordance with Section 4.105 of the San Francisco Charter and Section 2A.53(f) of the Administrative Code, (b) is in conformity with the priority policies of Section 101.1(b) of the San Francisco Planning Code, and (c) is consistent with the City's General Plan, and adopts the findings of the Planning Department, as set forth in the General Plan Referral Report dated ____________, a copy of which is on file with the Clerk of the Board in File No. _______________ and incorporates such findings by this reference.

Section 6. The time limit for approval of this resolution specified in Administrative Code Section 2.34 is waived.

Section 7. The City hereby declares its official intent to reimburse prior expenditures of the City incurred or expected to be incurred prior to the issuance and sale of any series of the Bonds in connection with the Project. The Board of Supervisors hereby declares the City's intent to reimburse the City with the proceeds of the Bonds for the expenditures with respect to the Project (the "Expenditures" and each, an "Expenditure") made on and after that date that is no more than 60 days prior to the adoption of this Resolution. The City reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Bonds.

Each Expenditure was and will be either (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditure), (b) a cost of issuance with respect to the Bonds, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the City so long as such grant does not impose any obligation or condition, directly or indirectly, to repay any amount to or for the benefit of the City. The maximum aggregate principal amount of the Bonds expected to be issued for the Project is $350,000,000. The City shall make a reimbursement allocation, which is a written allocation by the City that evidences the City's use of proceeds of the applicable series of Bonds to reimburse an Expenditure, no later than 18 months after the later of the date on which the Expenditure is paid or the related portion of the Project is placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The City recognizes that exceptions are available for certain "preliminary expenditures," costs of issuance, certain de minimis amounts, expenditures by "small issuers" (based on the year of issuance and not the year of expenditure) and Expenditures for construction projects of at least five years.

Section 8. Documents referenced in this resolution are on file with the Clerk of the Board of Supervisors in File No. _______________, which is hereby declared to be a part of this resolution as if set forth fully herein.

APPROVED AS TO FORM:
DENNIS J. HERRERA
City Attorney

By: ______________________
MARK D. BLAKE
Deputy City Attorney
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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 24, 2016

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 29, 2016 Budget and Finance Committee Meeting

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Items 1 and 2 Files 16-0557 and 16-0552	Departments: Controller's Office of Public Finance Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- 16-0557: Resolution determining and declaring the public interest and necessity demand the construction, acquisition, improvement, rehabilitation and conversion of "at-risk" multi-unit residential buildings to permanent affordable housing and performing needed seismic, fire, health and safety upgrades and other major rehabilitation for habitability, to be financed through bonded indebtedness not to exceed $350,000,000; providing for the levy and collection of taxes to pay the bond principal and interest; setting procedures for the election; adopting findings under the California Environmental Quality Act (CEQA), Administrative Code Chapter 31 and the Planning Code; and waiving time limits in Administrative Code, Section 2.34.
- 16-0552: Ordinance calling for a special election on November 8, 2016 to submit a proposition to San Francisco voters to amend Proposition A approved by voters in November 1992 to authorize additional purposes for providing general obligation bonded indebtedness loans for affordable housing.

Key Points

- On November 3, 1992, San Francisco voters approved a $350,000,000 General Obligation bond to fund a Seismic Safety Loan Program to provide seismic loans for unreinforced masonry buildings, including $150 million for affordable housing and $200 million for market-rate residential, commercial and institutional buildings. Of the total $350,000,000 authorized in 1992, $260,684,550 of that authorization remains after almost 24 years, including $156,000,000 for market rate loans.

Fiscal Impact

- The proposed legislation expands the use of the existing seismic safety market rate loan funds, but does not increase or add any new authorization to issue more than the existing $200 million of market rate bonds. Therefore, there is no net new fiscal impact to the City to approve the requested legislation.
- Without additional detail on the anticipated need for these market rate loan funds, and/or project details, the Office of Public Finance cannot currently estimate the number of bond issuances, timing of such bond sales, amounts of each issuance, or interest rates and related costs.
- There would be no additional levy on property taxpayers to repay the proposed debt service. Rather, the City would be fully reimbursed through loan payments by the borrowers of the loan for the cost of the debt service on the market rate bonds. Market rate borrowers would also be charged 1% additional interest to cover the City's Office of Public Finance costs, plus a 1.5% bond origination fee to cover MOHCD's costs, which would provide full City cost recovery.

Recommendations

- The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.
- Approval of the proposed resolution and ordinance to submit a $350 million General Obligation bond to San Francisco voters for the November 2016 ballot is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose. Section 9.105 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of General Obligation bonds in accordance with State law or local procedures adopted by ordinance.

City Administrative Code Section 2.34 requires that a resolution of public interest and necessity for the acquisition, construction or completion of any municipal improvement be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. These time limits may be waived by resolution of the Board of Supervisors.

Background

On November 3, 1992, San Francisco voters approved a $350,000,000 General Obligation bond to fund a Seismic Safety Loan Program (Proposition A) to provide loans for private owners to seismically strengthen their unreinforced masonry buildings. Under the existing $350 million Seismic Safety Loan Program, which is administered by the Mayor's Office of Housing and Community Development (MOHCD), $150 million is authorized for affordable housing and $200 million is authorized for market-rate residential, commercial and institutional buildings. As shown in Table 1 below, of the total $350,000,000 in bonds authorized in 1992, $260,684,550 of that authorization remains after almost 24 years, including $156,000,000 remaining bond authorization for market rate loans.

Table 1: Existing Seismic Safety Loan Program Bond Authorizations

	Total	Affordable Housing	Market Rate
Bonds Authorized	$350,000,000	$150,000,000	$200,000,000
Bonds Issued to Date	89,315,450	45,315,450	44,000,000
Remaining Bond Authorization	$260,684,550	$104,684,550	$156,000,000

DETAILS OF PROPOSED LEGISLATION

Under the proposed resolution (File 16-0557), the Board of Supervisors would

(a) Determine and declare that the public interest and necessity demand the acquisition, improvement, rehabilitation and preservation of affordable housing in the City for low- and middle-income households and incurring up to $350,000,000 of General Obligation bond costs is necessary or convenient for such purposes;

(b) Find that the $350,000,000 of General Obligation Bonds previously authorized under Proposition A in 1992 is and will be too great to be paid out of the ordinary annual income and revenue of the City, will require an expenditure greater than the amount allowed by the annual tax levy and will require the incurrence of an amount not to exceed $350,000,000;

(c) Find that the proposed bond is a funding mechanism and not a project under the California Environmental Quality Act (CEQA);

(d) Find that the proposed bond is in conformity with the priority policies of Planning Code, Section 101.1(b) and consistent with the General Plan;

(e) Waive the time limits set forth in Administrative Code Section 2.34; and

(f) Declare the City's intent to reimburse prior expenditures related to this project incurred prior to the issuance and sale of these bonds with bond proceeds.

Under the proposed ordinance (File 16-0552), the Board of Supervisors would

(a) Call and provide for a special election to be held in San Francisco on November 8, 2016 to submit to San Francisco voters a proposition to amend Proposition A approved by San Francisco voters in November 1992 to authorize the City to incur General Obligation bonded indebtedness for additional purposes of providing loans to cover costs to acquire, improve rehabilitate and convert at-risk multi-unit residential buildings to permanent affordable housing, including related costs;
(b) Provide for the levy and collection of taxes to pay principal and interest on bonds;
(c) Incorporate Administrative Code provisions for the Citizens' General Obligation Bond Oversight Committee's review;
(d) Set procedures and requirements for the election; and
(e) Adopt CEQA and General Plan and Planning Code findings.

The proposed resolution and ordinance would not add to the previously approved $200 million General Obligation bond market rate authorization shown in Table 1 above, but rather would expand the scope of eligible uses for the market rate bond proceeds. Currently, market rate loan proceeds are only available for seismic strengthening of unreinforced masonry buildings and the related administrative costs for market rate residential, commercial and institutional buildings. Under the proposed legislation, eligible uses of the market rate loan proceeds would be expanded to include financing the cost to acquire, improve and rehabilitate at-risk multi-unit residential buildings of three units or more in need of fire, health and safety upgrades or other major rehabilitation for habitability, including mixed-use residential buildings in order to convert such structures to permanent affordable housing.

According to the office of the sponsor of the proposed legislation, expanding the eligibility for the use of these loan funds will allow non-profit affordable housing developers to convert properties to permanently affordable housing through the City's Small Site Acquisition and Rehabilitation Program[1] or through other means. Although not defined in the proposed legislation, the office of the sponsor advises that permanent affordable housing is generally defined as price-controlled housing according to Area Median Income limits for residents who

[1] The City's Small Site Acquisition and Rehabilitation Program, administered by the Mayor's Office of Housing and Community Development, identifies potential existing properties at risk of losing their affordability that can be acquired or rehabilitated in order to retain affordable housing in the City.

qualify, and which generally remain affordable for at least 55 years, as enforced by MOHCD. The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.

Mr. Brian Strong, Director of the City's Capital Planning Program advises that the proposed resolution and ordinance are scheduled to be heard by the Capital Planning Committee on Monday, June 27, 2016.

FISCAL IMPACT

No Additional Bond Authorization

As discussed above, San Francisco voters previously authorized $350 million of General Obligation bonds for the existing Seismic Safety Loan Program, including $200 million for market rate loans. As shown in Table 1 above, $156,000,000 of market rate loan authorization still exists for General Obligation bonds which have never been issued. Since the proposed legislation simply expands the use of the market rate loan funds, but does not increase or add any new authorization to issue more than the existing $200 million of market rate bonds, there is no net new fiscal impact to the City to approve the requested legislation. The proposed legislation could expedite the use of the market rate bond proceeds that are issued and loans provided, however, the demand for such market rate loan proceeds is not currently known.

Future Market Rate Bond Issuances

Ms. Jamie Querubin, Bond Analyst in the Office of Public Finance advises that any new market rate bonds would include pricing assumptions similar to the previous bond transactions under the existing Seismic Safety Loan Program. However, Ms. Querubin reports that without additional detail on the anticipated need for these market rate loan funds, and/or project details, the Office of Public Finance cannot currently estimate the number of bond issuances, timing of such bond sales, amounts of each issuance or interest rates and related costs. The most recent bond issuance under the existing Seismic Safety Loan Program was in 2015 for $24 million and was structured as a 20-year, variable-rate direct purchase loan at a 3.0% estimated average annual interest rate.

In accordance with Section 5.31 of the Administrative Code, one-tenth of one percent (0.1%) of the bonds gross proceeds would be deposited into the Controller's Office fund, to be appropriated by the Board of Supervisors to cover the costs of the Citizens' General Obligation Bond Oversight Committee. In addition, the Controller's City Service Audit fee, bond issuance costs, and underwriter's discount fees would be included in the City's bond total costs.

Repayment of Loans to be Fully Reimbursed by Borrowers

Repayment of annual debt service for most General Obligation Bonds is recovered through increases to the annual Property Tax rate. However, because the market rate Seismic Safety Loan Program is a fully reimbursable loan program, there would be no additional levy on property taxpayers to repay the proposed debt service. Mr. Benjamin McCloskey, Deputy Director of Finance and Administration for MOHCD advises that under the existing market rate Seismic Safety Loan Program, the City is fully reimbursed through loan repayments by the borrowers of the loans for the cost of the debt service on the market rate bonds. In addition, the market rate borrowers are charged 1% additional interest over the City's cost of borrowing to cover the City's Office of Public Finance costs, plus a 1.5% bond origination fee to cover MOHCD's costs. If MOHCD administers the proposed market rate loan program to continue to provide full City cost recovery, there would be no additional costs to the City.

However, Mr. McCloskey advises, that depending on the additional work required by the proposed program, the MOHCD may need to add one additional full-time equivalent (FTE) staff to administer this program.

POLICY CONSIDERATION

Approval of the proposed resolution (File 16-0557) requires two-thirds or more of the Board of Supervisors approval and approval by the Mayor. In addition, approval of this $350,000,000 General Obligation Bond would require approval by at least two-thirds of San Francisco voters.

RECOMMENDATIONS

1. The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.

2. Approval of the proposed resolution and ordinance to submit a proposition to San Francisco voters to expand the uses of the existing $350 million Seismic Safety General Obligation bond program for the November 2016 ballot is a policy decision for the Board of Supervisors.

BOARD of SUPERVISORS

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TDD/TTY No. 554-5227

May 24, 2016

File No. 160557

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

Dear Ms. Jones:

On May 17, 2016, Supervisor Aaron Peskin introduced the following legislation:

File No. 160557

Resolution determining and declaring that the public interest and necessity demand the acquisition, improvement and rehabilitation and conversion of "at-risk" multi-unit residential buildings to permanent affordable housing and performing needed seismic, fire, health, and safety upgrades, and other major rehabilitation for habitability, to be financed through bonded indebtedness in an amount not to exceed $350,000,000; providing for the levy and collection of taxes to pay both principal and interest on such bonds; setting certain procedures and requirements for the election; adopting findings under the California Environmental Quality Act; and finding that the proposed bond is in conformity 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

By: Linda Wong, Assistant Clerk

Attachment

c: 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. It is a funding mechanism involving no commitment to any specific projects at any specific location.

Joy Navarrete

Digitally signed by Joy Navarrete
DN: cn=Joy Navarrete, o=Planning, ou=Environmental Planning, email=joy.navarrete@sfgov.org, c=US
Date: 2016.06.03 11:50:35 -07'00'

Print Form

Introduction Form

By a Member of the Board of Supervisors or the 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 [ ] 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 Aaron Peskin

Subject:

[General Obligation Bond Election – Amending Earthquake Loan Program, 1992 to Finance Permanent Affordable Housing]

The text is listed below or attached:

Resolution determining and declaring that the public interest and necessity demand the acquisition, improvement and rehabilitation and conversion of "at-risk" multi-unit residential buildings to permanent affordable housing and performing needed seismic, fire, health, and safety upgrades, and other major rehabilitation for habitability, to be financed through bonded indebtedness in an amount not to exceed $350,000,000; providing for the levy and collection of taxes to pay both principal and interest on such bonds; setting certain procedures and requirements for the election; adopting findings under the California Environmental Quality Act (CEQA); and finding that the proposed bond is in conformity with the priority policies of Planning Code, Section 101.1(b) and with the General Plan.

Signature ot Sponsoring Supervisor: ______________________

For Clerk's Use Only: