

File No. 180701

Committee Item No. 5

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight

Date: February 21, 2019

Board of Supervisors Meeting:

Date: _____

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OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>MOHCD Presentation - October 3, 2018</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Mayor's Office Consolidated Response - September 3, 2018</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Controller's Response - August 17, 2018</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Civil Grand Jury Press Release and Report - July 2, 2018</u> |
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

Prepared by: John Carroll

Date: February 15, 2019

Prepared by: _____

Date: _____

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Monday, February 04, 2019 12:14 PM
To: 'Lori Campbell'; 'Rasha Harvey'; 'Kathleen Lowry'; Valdez, Marie (MYR); 'civilgrandjury@sftc.org'; Rahaim, John (CPC); Sanchez, Scott (CPC); Gibson, Lisa (CPC); Jain, Devyani (CPC); Rodgers, AnMarie (CPC); Sider, Dan (CPC); Starr, Aaron (CPC); Rosenfield, Ben (CON); Rydstrom, Todd (CON); Stevenson, Peg (CON); Lediju, Tonia (CON); GIVNER, JON (CAT); Somera, Alisa (BOS); Newman, Debra (BUD); Campbell, Severin (BUD); Clark, Ashley (BUD); Wright, Edward (BOS); Cancino, Juan Carlos (BOS); 'Angulo, Sunny (sunny.angulo@sfgov.org)'; Anatolia Lubos; 'P Segal'
Subject: 2017-2018 Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing - GAO Committee Follow-up Hearing - February 21, 2019
Categories: 2019.02.21 - GAO, 180701

Good afternoon,

The Government Audit and Oversight Committee has confirmed a hearing date to follow-up on a 2017-2018 Civil Grand Jury Report.

This message serves to inform you that the Committee will consider the report entitled “Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing” at its regularly-scheduled meeting on Thursday, February 21, 2019, at 10:00 a.m. During this hearing, the Committee will review the recently-released Budget and Legislative Analyst Policy Analysis Report on Permitting Fees and Accessory Dwelling Unit Construction.

For your convenience, this report is available from the following link:

[Permitting Fees and Accessory Dwelling Unit Construction](#)

In the 2017-2018 CGJ report, Recommendation Nos. R2 and R3 were directed to the Board of Supervisors for required response.

Recommendation R2 reads as follows: “recommends the Board of Supervisors amend existing City codes and ordinances, before June 30, 2019, to waive or reduce ADU permit fees, with the understanding that reduced departmental revenues would be made up from the City’s general fund.”

Recommendation R3 reads as follows: “recommends the Board of Supervisors structure fees separately for ADUs in single family residences and ADUs in multi-unit buildings, specifically designed to ease the permitting costs for single family homeowners.”

In October of 2018, the Board of Supervisors responded to both Recommendation Nos. R2 and R3 with the following text: “requires further analysis, the Budget and Legislative Analyst Office, the San Francisco Planning Department, and the Office of the Controller should study the correlation between a reduction in permitting fees and an increase in ADU construction.”

During the February 21, 2019 hearing, the Government Audit and Oversight Committee may consider drafting a motion updating the Board responses to Recommendation Nos. R2 and R3.

I invite you to review the entire matter on our [Legislative Research Center](#) by following the links below:

[Board of Supervisors File No. 180701](#) and
[Board of Supervisors Resolution No. 342-18](#)

We look forward to this hearing. Thank you for your review.

John Carroll
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Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
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Carroll, John (BOS)

From: Loeza, Gabriela (BUD)
Sent: Thursday, January 31, 2019 5:19 PM
To: Calvillo, Angela (BOS); Carroll, John (BOS); BOS Legislation, (BOS); Laxamana, Junko (BOS); Lew, Lisa (BOS); Major, Erica (BOS); Mchugh, Eileen (BOS); Somera, Alisa (BOS); Wong, Linda (BOS); Young, Victor (BOS)
Cc: Campbell, Severin (BUD); Bairey, Linden (BUD); Rose, Harvey (BUD); Brousseau, Fred (BUD)
Subject: January 31, 2019 - Permitting Fees and Accessory Dwelling Unit Construction
Attachments: BLA Policy Report.Accessory Dwelling Units.013119.pdf
Categories: 180701


Attached please find a copy of the Budget and Legislative Analyst's report, *Permitting Fees and Accessory Dwelling Unit Construction*, prepared for Supervisor Mar, Chair, Government Audit and Oversight Committee. For further information about this report, please contact Severin Campbell at the Budget and Legislative Analyst's Office: 553-4647 or severin.campbell@sfgov.org.

Gabriela Loeza
Budget & Legislative Analyst's Office
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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

Policy Analysis Report

To: Supervisor Gordon Mar, Chair,
Government Audit and Oversight Committee
From: Budget and Legislative Analyst's Office 
Re: Permitting Fees and Accessory Dwelling Unit Construction
Date: January 31, 2019

Summary of Requested Action

Board of Supervisors Resolution 342-18 (File 18-0702) directed the Budget and Legislative Analyst's Office to study the correlation between a reduction in permitting fees and an increase in accessory dwelling unit construction in response to Recommendation No. R2 and Recommendation No. R3 in the 2017-2018 Civil Grand Jury Report entitled "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing."

For further information about this report, contact Severin Campbell at the Budget and Legislative Analyst's Office.

<i>Project Staff: Severin Campbell, Linden Bairey, Monica Balanoff, Karl Beitel.</i>
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Executive Summary

- An accessory dwelling unit (ADU) is a residential unit that is added to an existing housing lot. San Francisco's Planning Code allows the construction of ADUs on all lots in San Francisco that allow residential use. ADUs are considered an opportunity to increase lower-cost housing, especially in built-out neighborhoods with little room for large scale development.
- Two other cities – Portland and Seattle – have enacted zoning changes, waived fees, and/or conducted public outreach to facilitate ADU construction. The number of new ADU units approved by the city of Portland increased between 2010, when development impact fees were waived, and 2016, after design and setback standards were relaxed. The city of Seattle legalized the construction of detached ADUs in certain neighborhoods in 2014 and conducted a study of options for increasing construction of ADUs in 2015, but has not implemented citywide zoning changes or fee waivers. However, the number of new ADUs approved by the city of Seattle increased between 2014 and 2016 during the period of increased public visibility occasioned by the city-commissioned study.

- According to the 2017 joint report published by the Turner Center, the Center of Community Innovation, and the Urban Land Institute, property owners in Portland, Seattle, and Vancouver stated that additional rental income (38 percent) and providing space for a family member or caregiver (28 percent) were the most important factors in deciding to construct an ADU. When asked what factors discouraged or encouraged property owners to actually undertake new construction, the most commonly cited reasons were changes in zoning restrictions and financial capacity.
- Our analysis of new housing construction and housing prices in Portland suggests that some of the increase in ADU approvals may be due to the overall housing market, including rising property values, as opposed to changes in zoning or fee waivers. Between 2010 and 2016, when the number of new ADUs approved by the city of Portland increased, the total number of new housing units approved in the Portland area and the Portland Case-Shiller House Price Index also increased. Between 2014 and 2016, when the number of new ADUs approved by the city of Seattle increased, the total number of new housing units approved in the Seattle area also increased.
- In San Francisco, the number of ADU screening forms – the first step in the ADU permit application process – increased between 2015 and 2018, during which time the Board of Supervisors approved several changes to the City’s Planning Code to facilitate construction of new ADUs. More than 70 percent of the permits for ADU construction are for multi-unit residences. On average, permit fees make up approximately 8 percent of total ADU project costs.
- ADU permit fees were \$2 million in FY 2017-18. Because permit fees are divided among several City departments, primarily the Planning Department, the Department of Building Inspection, and the Fire Department, the costs to waive permit fees would be spread across several departments, representing a small percentage of total department revenues.
- Waiving ADU permit fees could benefit property owners by reducing project costs by approximately 8 percent, and would have only a small revenue impact on City departments. While San Francisco would likely see an increase in ADU construction if permit fees were waived, other factors, including rising property values and the potential for rental income, would also likely impact the decision by San Francisco property owners to construct ADUs.
- If the Board of Supervisors were to approve a fee waiver for ADU permits, the Board should consider (a) a time-limited program, including a potential pilot program of two to three years to evaluate the impact of a fee waiver; (b) a waiver of specific types of fees – such as planning and building permit fees – but not all potential fees; and (c) whether to waive fees for ADUs constructed on single-family lots (which make up approximately 20 percent of ADU permits) in order to specifically waive the permit fee burden on single family homeowners.

2017-2018 Civil Grand Jury Recommendations

The 2017-2018 Civil Grand Jury Report entitled “Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing” contains 14 findings and 11 recommendations related to accessory dwelling units (ADUs) and modular housing. Board of Supervisors Resolution 342-18 (File 18-0702) directed the Budget and Legislative Analyst’s Office to study the correlation between a reduction in permitting fees and an increase in accessory dwelling unit construction in response to Recommendation No. R2 and Recommendation No. R3:

- Recommendation No. R2 “recommends the Board of Supervisors amend existing City codes and ordinances, before June 30, 2019, to waive or reduce ADU permit fees, with the understanding that reduced departmental revenues would be made up from the City’s general fund.”
- Recommendation No. R3 “recommends the Board of Supervisors structure fees separately for ADUs in single family residences and ADUs in multi-unit buildings, specifically designed to ease the permitting costs for single family homeowners.”

Accessory Dwelling Units in San Francisco

An accessory dwelling unit (ADU), also known as an in-law unit, granny flat, or secondary unit, is a residential unit that is added to an existing housing lot. ADUs may be constructed within the existing building, as an extension to the existing building, or as a separate structure, and are typically developed using underutilized spaces within lots, such as garages, storage areas, rear yards, or attics. ADUs are independent living units with their own kitchens, bathrooms, and living areas. San Francisco’s Planning Code allows the construction of ADUs on all lots in San Francisco that allow residential use.

The addition of ADUs as a small-scale residential infill strategy may help address San Francisco’s growing housing demand, high cost of living, and scarcity of affordable housing. An added unit that is rented out can subsidize a homeowner’s mortgage or provide additional income, and the renter may pay a lower rent for an ADU than a full-size standard unit. An ADU is often rented at below-market rates because of the unit’s size, secondary status, and relatively low costs of construction. ADUs may also facilitate multi-generational households by housing a homeowner’s senior parent, college-age child, or other family member.

ADUs are also an opportunity to add new and likely lower-cost housing options in neighborhoods of San Francisco that are already built out with a single-family homes or multi-unit apartments and that are not undergoing major development. The construction of ADUs in these neighborhoods would create new housing supply in developed areas of San Francisco that otherwise might not have added additional housing in the short- or long-term future.

Policy 1.5 of the City's 2014 Housing Element, which is a required element of the City's General Plan, states that "secondary units represent a simple and cost-effective method of expanding the housing supply. Such units could be developed to meet the needs of seniors, people with disabilities, and others who, because of modest incomes or lifestyles, prefer or need smaller units at relatively low rents."

Ordinance 162-16 (File 16-0657), adopted by the Board of Supervisors on July 26, 2016, amended San Francisco's Planning Code to allow the construction of ADUs on all lots in the City that allow for residential use. Prior to Ordinance 162-16 and subsequent amendments,¹ construction of ADUs on residential lots was limited by various requirements in the Planning Code. Section 65852.2 of the California Government Code provides that any local agency may, by ordinance, provide for the creation of ADUs in zones that allow for residential use.

Other Cities' Experiences with ADUs

Fee Waivers and ADU Construction

Only a few cities in the United States of comparable size to San Francisco have enacted zoning changes and/or fee waivers for the express purpose of facilitating the construction of ADUs. The experience of two cities, Portland and Seattle, indicates that zoning changes, fee waivers, and public education to increase awareness of ADUs are correlated with an increase in the number of ADUs that are authorized. These effects are particularly pronounced in Portland, where a combination of public outreach and education, fee waivers, and subsequent complementary zoning changes to facilitate ADU construction appear to have achieved a significant boost in new production.

Fee Waivers, Zoning Changes, and New Construction in Portland and Seattle

A 2017 joint report published by the Turner Center, the Center of Community Innovation, and the Urban Land Institute attempted to assess whether zoning changes and fee waivers encouraged the development of ADUs by examining the number of ADUs authorized in Portland, Seattle, and Vancouver following changes to zoning laws and the implementation of fee waivers.² The policy rationale underlying these policy changes is straightforward. Minimum lot sizes, setbacks, and on-site parking requirements can render many potential ADUs illegal. Fees increase the total cost of an ADU project to the property owner, and render ADU construction non-feasible if project costs exceed the savings or financial capacity of homeowners. Zoning easements and fee waivers would therefore encourage new production by making potential ADUs legal and reducing project costs to property owners interested in constructing an ADU.

¹ Ordinance 95-17 (File 17-0125), adopted by the Board of Supervisors on May 2, 2017, expanded opportunities for single-family homes to add ADUs. Ordinance 162-17 (File 17-0434), adopted by the Board of Supervisors on July 18, 2017, amended Ordinances 162-16 and 95-178 to offer greater flexibility in the Planning Code.

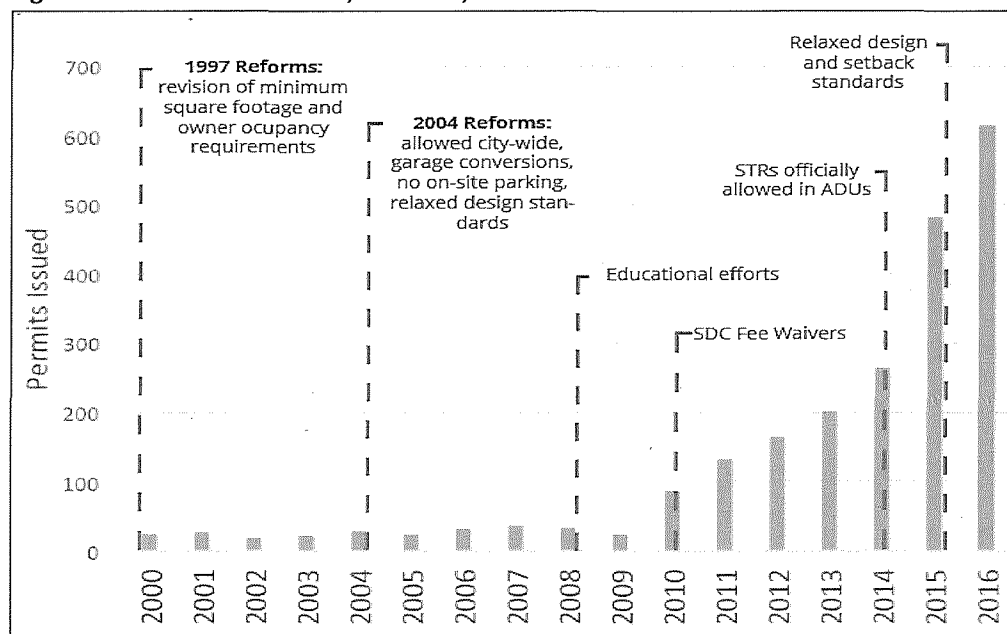
² Urban Land Institute, The Turner Center for Housing Innovation, and the Center for Community Innovation, (2017), "Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle and Vancouver", Karen Chapple, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman.

City of Portland Fee Waivers and Zoning Changes

Portland enacted regulatory changes in 1997 and 2004 that included reduction in minimum lot sizes, legalization of garage conversions, and elimination of on-site parking requirements. These changes were followed in 2008-2009 by a city-wide organizational and outreach campaign. ADU advocates organized bicycle tours and various educational events to increase awareness of the multiple environmental, transit, and social benefits of ADUs. In 2010, the city waived System Development Charges, which are one-time fees based on the new or increased use of a property (for example, impact fees for parks, sewers, water, and streets) that average 7 percent of the cost of a new home. Portland subsequently enacted further regulatory changes, allowing short-term rentals in 2014 and relaxing design and setback requirements in late 2015.

Figure 1 shows ADU authorizations in Portland between 2000 and 2017. Neither the 1997 nor 2004 zoning changes appear to have any impact on ADU authorizations. In contrast to the negligible effect of zoning changes, the fee waiver did appear to result in a significant increase in ADU permit authorizations, which rose from fewer than 50 in 2009 to more than 600 in 2016.

Figure 1: ADU authorizations, Portland, 2000-2016³



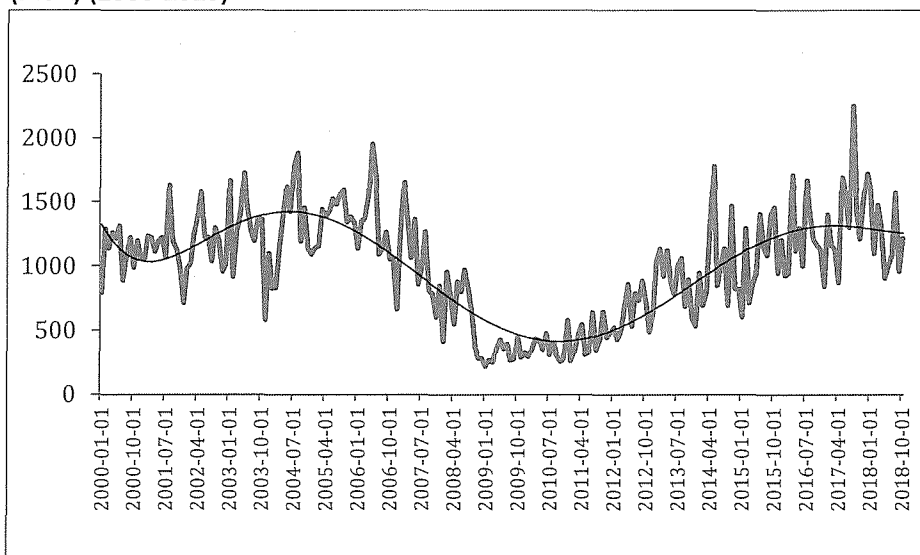
Source: Chapple, et al, 2016.

However, some of the upturn in ADU authorizations may be due to the cyclical increase in construction levels and rising property values, as opposed to changes in zoning or effects of a fee waiver. It is difficult to separate the rise in ADU authorizations from the overall increase in permit issuance that took place beginning in early 2009, as shown in Figure 2. The post-2009 upturn in overall

³ "STR" stands for "short term rentals", and "SDC" stands for "system development charges".

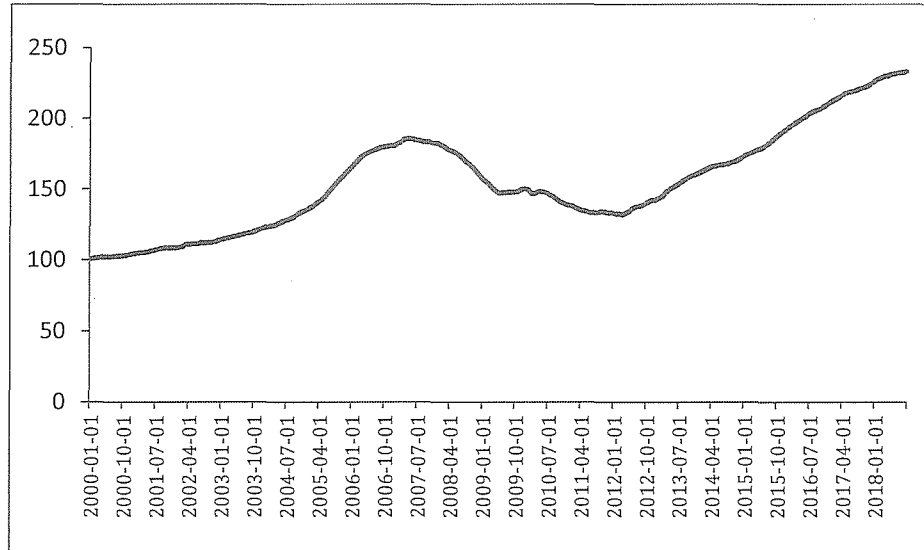
permit authorizations coincides with recovery from the 2007-2008 recession, increases in population that have driven a sustained increase in housing demand, and rising incomes among segments of the renter population. Some of the increase in ADU authorizations may be due to the more general recovery in new housing construction. In addition, rising housing prices can provide incentives to increased ADU construction by increasing the value of home equity. Combined with very low interest rates during the 2010-2016 periods and the viability of using home equity loans to finance new construction, these factors may also have contributed to the observed increase in ADU authorizations.

Figure 2: New Units Authorized, Monthly, Portland Metropolitan Statistical Area (MSA) (2000-2018)



Source: St. Louis Federal Reserve FRED.

Figure 3: Portland Case-Shiller House Price Index, 2000-2018



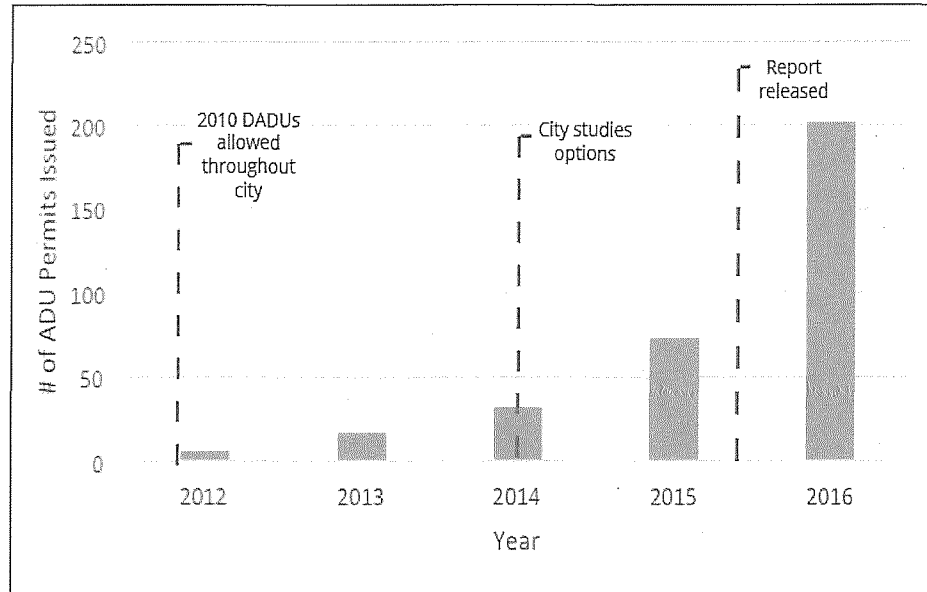
Source: St. Louis Federal Reserve FRED.

City of Seattle

The 2017 Turner Center et al. report also reviewed the effects of zoning change and educational and outreach efforts on ADU authorizations in Seattle, which has allowed the construction of attached ADUs since the 1990s. In 2012, Seattle legalized the construction of detached ADUs in selected neighborhoods. In 2014, the city engaged in a study of options for increasing the production of ADUs, which was released in 2015. As seen in Figure 4 below, in the two-year period of 2015-2016, there was a significant increase in ADU permit issuance, with ADU authorizations rising from a negligible level in 2012 to approximately 75 authorizations in 2014, and then again to slightly over 200 authorizations in 2016.

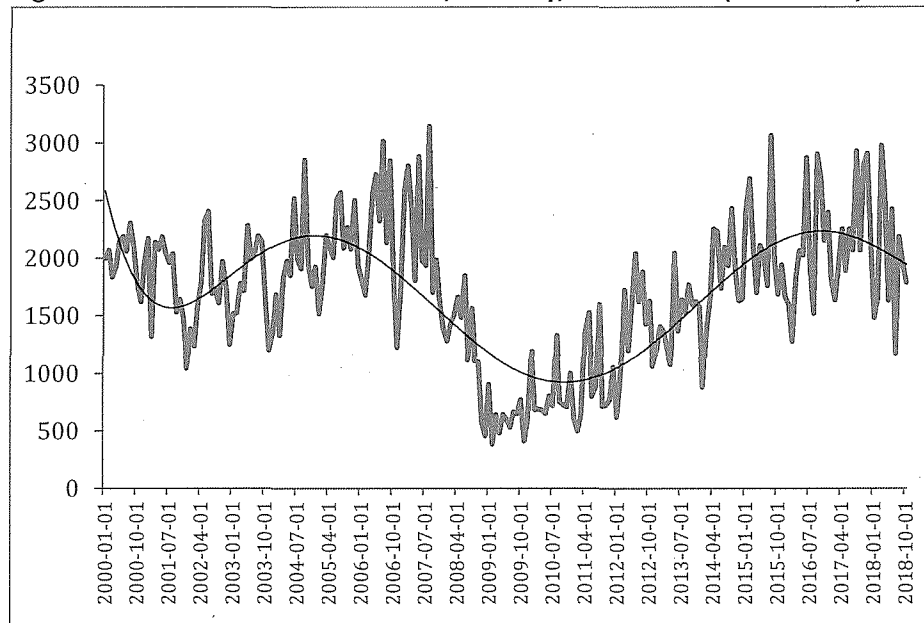
However, in contrast to Portland, Seattle has not enacted any major City-wide zoning easements or fee waivers. The increase in ADU production, to the extent it is due to local public policy, appears to be due entirely to the increased public visibility occasioned by the city-commissioned study. However, similar to Portland, the upturn coincides with the upturn in the construction cycle as seen in Figure 5, as well as rising housing prices (not shown), strong regional population growth, and rising wages for certain categories of workers employed in the region's technology industry. Therefore, public awareness and the upturn in regional housing construction and rising home prices, as opposed to policy changes, appear to be the major factors driving the increase in ADU authorizations in Seattle.

Figure 4: ADU Authorizations, Seattle, 2012-2016



Source: Chapple, et al, 2016.

Figure 5: Total New Units Authorized, Monthly, Seattle MSA (2000-2018)



Source: St. Louis Federal Reserve FRED.

Survey of Property Owners

Aside from the city case studies, the 2017 Turner Center et al. report also surveyed homeowners in Portland, Seattle, and Vancouver who had constructed ADUs to determine which factors were most significant to homeowners when deciding to engage in new development. The most common motives for ADU

construction identified in the survey results were additional rental income (38 percent) and providing space for a family member or caregiver (28 percent). When asked what factors discouraged or encouraged property owners to actually undertake new construction, the most commonly cited reasons were changes in zoning restrictions and financial capacity. The largest share of homeowners that developed ADUs financed the project through loans secured against existing home equity (40 percent) or with cash savings (30 percent), which indicates that new ADU construction is likely to be influenced by fluctuations in property values of existing homes and interest rates on long-term home equity loans. Both these factors were favorable to new construction between 2010 and 2016.

ADUs, Shifting Urban Demographics, and Affordability

ADUs may be well suited to providing housing in cities that conform to the type of demographic profile that currently characterizes San Francisco. The NYU Furman Center published a report in 2014 that evaluated micro-unit construction as a means of providing housing that meets the needs and profiles the urban renter populations in the United States. Urban populations have become generally younger since 1990, and the percentage of single persons living alone has been steadily rising over the last five decades, although at a slower rate since 1980. In the selected comparison cities used in the Furman study, the number of one-person households in 2011 ranged from 34.5 percent (Austin) to 45.2 percent (Washington DC), with San Francisco at 37.1 percent.⁴ Because ADUs are typically occupied by a single individual, or at most a couple, the authors conclude that ADU development will match the housing needs and preferences of the single households that compose a significant, and growing, percentage of total urban households.

In addition, the 2014 Furman study reported that micro-units often rent at higher rates per square foot but at lower overall rents than larger apartments, which suggests that ADUs could meet the housing needs of individuals earning at, or below, area median income (AMI). These conclusions are supported by studies and working papers published by the Berkeley Institute of Urban and Regional Development that seek to assess the degree to which ADU production could be used to promote policy goals such as increasing affordable housing production. In one working paper, researchers conducted a review of Craigslist data for the Oakland-Fremont HUD Metro Fair Market Rent Area comparing rental rates for non-secondary and secondary (ADU) units.⁵ The average secondary unit was affordable to a single household earning 62.8 percent of AMI, while the average regular unit was affordable to a household earning 69.3 percent of AMI.⁶ The report also found that: (a) 30 percent of all secondary units were affordable to those earning between 30 and 50 percent of AMI, as opposed to 12 percent of non-secondary units; (b) 49 percent of all secondary units were affordable to

⁴ See data at <https://statisticalatlas.com/place/California/San-Francisco/Household-Types>

⁵ Institute of Urban and Regional Development (2012), "Scaling Up Secondary Unit Production in the East Bay: Impacts and Policy Implications". Jake Wegmann, Alison Nemirow, and Karen Chapple.

⁶ Using the standard assumption that a unit is affordable if the household pays no more than 30 percent of income in rent.

households earning 50-80 percent of AMI, as opposed to 67 percent for non-secondary units, and; (c) affordability percentages for households earning above 80 percent of AMI were 21 and 20 percent for non-secondary and secondary units, respectively.

The Institute of Urban and Regional Development also undertook an analysis of the total increase in potential supply that could be achieved in the half-mile radius surrounding selected BART stations on the Oakland-Berkeley-Richmond corridor through zoning changes specifically targeted to encourage ADU construction. Effects in encouraging affordable housing development and increased transit usage were generally seen as favorable, with estimates of a potential increase ranging between 17 to 42 percent.⁷ However, there are no studies of the longer-term impacts of zoning changes and fee waivers that allow us to assess whether these policy changes have significant impacts on construction volumes or housing affordability over the longer term. The principal barriers in order of ranked importance according to surveyed homeowners were parking requirements, mandated minimum lot size, and development costs.⁸

The lower overall rents in micro-units reported by the Furman study in 2014, and in secondary units reported by the Institute of Urban and Regional Development in 2012 may be less evident in San Francisco, which is presently characterized by very high area median income and very pronounced income disparities. The Institute of Urban and Regional Development survey of rents in 2012 was for the Oakland-Fremont area, which in 2012 had a higher percentage of low- to moderate-income working class residents and less housing pressures than San Francisco has in 2019. The 2019 housing and rent pressures in San Francisco may result in higher rents for ADUs.

ADU Permit Applications and Construction in San Francisco

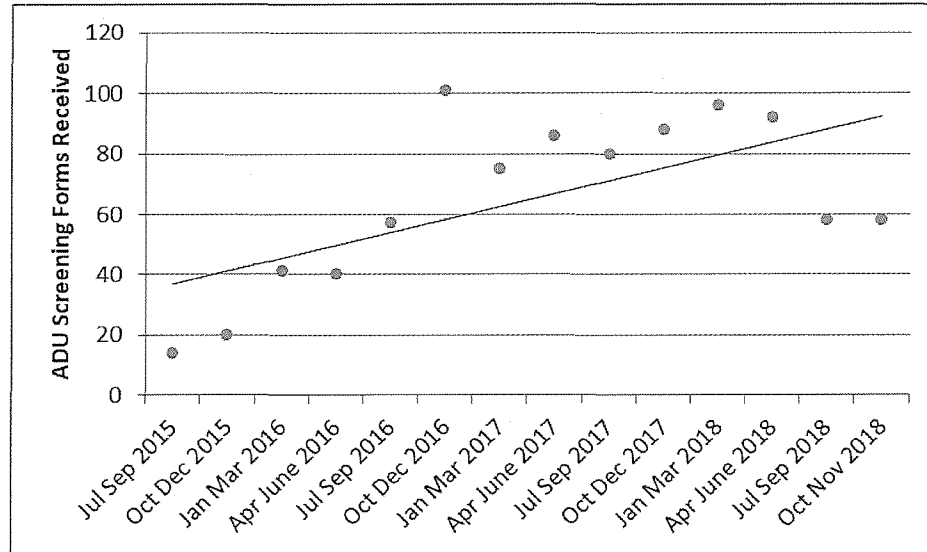
San Francisco has enacted Planning Code changes to facilitate construction of ADUs. In July 2016, the Board of Supervisors amended the City's Planning Code to allow the construction of ADUs on all lots in the City that allow for residential use with subsequent changes to further facilitate ADU construction.⁹ Following the Planning Code changes, the number of screening forms received by the Department of Building Inspection (DBI), which is the first step in the ADU application process, increased by nearly three times from 115 between July 2015 and June 2016 to 319 between July 2016 and June 2017. The number of ADU screening forms submitted to DBI continued to increase in 2017 and 2018, as shown in Figure 6 below.

⁷ Institute of Urban and Regional Development (2012), "Yes, But Will they Let Us Build: The Feasibility of Secondary Units in the East Bay, Alison Nemirow and Karen Chapple;

⁸ Institute of Urban and Regional Development (2012), "Understanding the Market for Secondary Units in the East Bay". Jake Wegmann and Karen Chapple. Institute of Urban and Regional Development (2012), "Scaling Up Secondary Unit Production in the East Bay: Impacts and Policy Implications". Jake Wegmann, Alison Nemirow, and Karen Chapple.

⁹ As noted above, Ordinance 95-17 (File 17-0125), adopted by the Board of Supervisors on May 2, 2017, expanded opportunities for single-family homes to add ADUs. Ordinance 162-17 (File 17-0434), adopted by the Board of Supervisors on July 18, 2017, amended Ordinances 162-16 and 95-178 to offer greater flexibility in the Planning Code

Figure 6: ADU Screening Forms Submitted, July 2015-November 2018



Source: Department of Building Inspection.

Most property owners who submitted screening forms between June 2015 and November 2018 submitted permit applications to construct ADUs. Of the 960 screening forms that DBI received between June 2015¹⁰ and November 2018, 884 (or 92 percent) submitted permit applications. As of November 30, 2018, 261 permits had been issued and/or approved and construction work had been completed for 65 permits. DBI calculates that 584 ADUs have been constructed, are being constructed, or have been approved to begin construction as of November 30, 2018. (Many ADU projects generate multiple units on a property under a single project and permit.) Figure 7 below summarizes the status of ADU project screenings and permits in the 3 ½ year period between June 2015 and November 2018.

¹⁰ DBI's database includes screening forms received beginning in the second half of June 2015.

**Figure 7: Status of ADU Project Screenings and Permit Applications,
June 2015–November 2018**

Under review by Planning	298
Under review by DBI	100
Under review by other agency ^a	59
No routing/activity ^b	42
TOTAL UNDERGOING PLAN REVIEW	479
Permit issued	210
Permit approved (waiting for pickup)	51
Work completed	65
Permit withdrawn/revised	59
TOTAL PERMITS	884
No permit application after screening form	76
TOTAL SCREENING FORMS RECEIVED	960

Source: Department of Building Inspection.

^a Other City agencies may include the Fire Department, the Department of Public Works, the San Francisco Public Utilities Commission, and DBI's Permit Processing Center.

^b Owners have not paid filing fees.

Note: The totals presented above represent ADU projects, not ADU units. Some ADU projects add multiple dwelling units under a single project and permit. DBI calculates that the completed, issued, and approved permit applications together have generated 584 ADUs that have been constructed, are being constructed, or have been approved to begin construction.

Once an ADU project has been reviewed by all necessary departments, DBI may approve the permit application. In order to issue the permit, the applicant must pay applicable City fees.

ADU Fee Costs to Property Owners

Types of ADU Fees

The fees assessed on an ADU project include: 1) permit fees, which are fees imposed by a Department to compensate for the cost of reviewing applications, issuing permits, and inspecting permitted work; 2) service fees or charges, such as water and wastewater capacity charges, record retention fees, and other fees or charges; and 3) development impact fees, which are fees imposed on development projects to mitigate the impacts on public services, infrastructure, and facilities.

The Planning Department, DBI, and the Fire Department are the three main City departments that always charge fees on an ADU project and receive most of the fee revenues, according to DBI. The San Francisco Public Utilities Commission (SFPUC), the Department of Public Works (DPW), and San Francisco Unified School District (SFUSD), among other departments, may charge fees depending on the parameters of the ADU project.

Significant fees that consistently apply to ADU projects include the Building Permit Fee, the Planning Permit Fee, and the Fire Plan Review Fee, which are always assessed on permits for new construction or building alterations and are based on

the cost of construction of the project. Other significant fees, including the SFPUC Water Capacity Charge and the SFUSD School Impact Fee, vary by other circumstances, and not all of these fees are assessed on all projects.

The fees that apply to an ADU project and the fee value depends on various factors, including the number of dwelling units to be added, the valuation of the construction work, changes in the building's occupancy code, square footage of the ADU(s), the addition of a house number, increase in water meter size, and other factors. Examples of valuation-based fees and fees that vary by circumstance are shown in Figure 8 below.

Figure 8: Categories of ADU Fees

Type of Fee	Example
Permit fees based on valuation	DBI Building Permit Fee, Planning Building Permit Fee, Fire Plan Review Fee
Other specific fees and charges	PUC Water Capacity Charge, PUC Wastewater Capacity Charge, DBI Records Retention Fee, Building Numbers Fee
Development Impact fees	SFUSD School Impact Fee, Childcare Impact Fee for Residential Projects

Note: This exhibit is not an exhaustive list of all fees that could apply to an ADU project.

ADU Fee Costs to Property Owners

Of the 275 ADU projects that have had fees assessed (210 issued permits and 65 completed permits, as shown in Figure 7 above), the average permit fee paid was \$13,638. On average, fees represent 7.8 percent of the total cost (permit value plus permit fees) of an ADU project.

Recommendation No. R3 in the Grand Jury's report recommends that permit fees for ADUs in single family residences and multi-unit residences be structured separately, "specifically designed to ease the permitting costs for single family homeowners." Single family residences make up nearly one-quarter of ADU permits (64) and multi-unit residences make up nearly three-quarters of ADU permits (199). Average total ADU project costs are lower for single family residences (\$127,133) than for multi-unit residences (\$193,798). Permit fees represent 7.24 percent of total project costs for single-family homes and 7.92 percent of total project costs for multi-unit residences.

Figure 9 below summarizes ADU project costs and permit fees overall and for single-family and multi-unit residences specifically.

Figure 9: Average Permit Value and Fee Overall and by Residence Type

	Single-family	Multi-unit	Other ^a	Total
Number of permits	64	199	12	275
Average permit fee	\$9,199	\$15,345	\$9,011	\$13,638
Average project cost ^b	\$127,133	\$193,798	\$123,112	\$175,199
Permit fee as % of project cost	7.24%	7.92%	7.32%	7.78%

Source: Department of Building Inspection.

a: "Other" includes hotels, boarding houses, private garages, and other buildings.

b: The permit value is the cost of construction under the scope of work of the ADU permit as calculated by DBI based on the Department's cost schedule.

Note: The fees presented above represent fees per ADU project, not per ADU unit. Some ADU projects add multiple dwelling units under a single project and permit. Total cost calculated as the permit value plus the permit fees associated with a project.

Overall, ADU project permit fees have a similar cost impact on single-family homes and multi-unit homes.

The Fiscal Impact of Waiving ADU Fees

General permit fees are designed to cover the cost to the City of monitoring permitted projects. Specific fees and charges like capacity charges are intended to cover the costs of sewer and water line connections or other costs generated by the project. Development impact fees are designed to mitigate the effects of development on City public services, such as transportation and schools. Waiving these fees would prevent San Francisco from recovering these costs.

Estimations of Annual Cost of Waiving ADU Fees

Fees for ADU permits are paid upon the issuance of the building permit. In FY 2017-18, 142 ADU permits were issued and fees for these permits totaled \$1,914,689. Waiving these fees would cost the City approximately \$2 million per year.¹¹

The costs of approximately \$2 million per year associated with the fee waiver would be spread out across the permitting departments, primarily the Planning Department, DBI, and the Fire Department, and to a lesser extent SFPUC, DPW, SFUSD, and others. These costs will increase if number of issued permits for ADU projects increases in the future. If the number of issued permits in future fiscal years is higher than in FY 2017-18, City costs of waiving permit fees will be higher.

¹¹ DBI issued 92 ADU project permits for the first six months of FY 2018-19; if total permits in FY 2018-19 are 184 (or 2x the permits issued for the first six months), estimated permit costs are \$2.5 million, based on average permit costs of \$13,638.

Conclusion and Costs and Benefits

Both zoning changes and fee waivers likely contribute to an increase in permit applications and construction of ADUs. Portland saw an increase in ADU authorizations after relaxing some zoning restrictions and waiving some fees. San Francisco saw an increase in ADU screening forms after allowing ADUs to be constructed on all lots zoned for residential use. Because total housing construction also increased during the same time period, high housing prices and low interest rates may have also contributed to an increase in ADU permit applications and construction.¹²

Because permit fees are a significant part of ADU project costs, making up nearly 8 percent of total project costs, waiving permit fees could be an incentive to property owners to construct ADUs. These savings can offer significant benefit to property owners, who typically finance ADU projects through loans or the use of their savings.

Recommendation No. R2 in the Civil Grand Jury report recommends waiving or reducing ADU permit fees “with the understanding that reduced departmental revenues would be made up from the City’s general fund.” However, it is likely that affected departments will be able to absorb the reduction in revenue without General Fund assistance. While City departments would incur estimated costs of approximately \$2 million or more per year, these costs would be spread among several City departments, including Planning, DBI, and Fire, making up a smaller percentage of each department’s permitting budget.

Policy Considerations

If the Board of Supervisors were to consider a fee waiver program to encourage owners of single-family properties to construct ADUs, the following program components should be considered.

Program duration: The duration of a fee waiver program will affect both the ongoing fiscal impact and the incentives for property owners. A time-limited program may cause an increase in ADU construction in the short term, while also limiting the fiscal impact on City departments. However, if the time limit causes a spike in ADU permits because property owners want to take advantage of the fee waiver while it is in place, such an increase would increase the short-term fiscal impact on the City. The Board of Supervisors could also implement a fee waiver program for two to three years initially with the option to make a waiver program permanent. An initial term of two to three years would allow the City to assess whether the program has successfully encouraged more ADU construction,

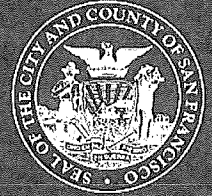
¹² The 2004 zoning change in Portland removing prohibitions on garage conversions and eliminating parking requirements occurred at the turning point of the construction cycle, and appeared to have no impact on the overall volume of new permit authorizations. This period was also characterized by rising interest rates that increased the cost of ADU construction finance. These factors would dampen the interest in ADU development.

calculate the fiscal impact on the City, and decide whether to make the fee waiver permanent.

Selection of fees waived: Another policy consideration is the selection of fees to be waived. This analysis assumes that both permit fees and impact fees would be waived. However, the Board of Supervisors could decide to only waive permit fees, to exclude certain impact fees from the waiver, or otherwise to select which fees are waived for ADU projects. Limiting the fees waived would decrease the cost savings to property owners. However, selecting which fees to waive would offer the Board flexibility and allow the City to continue to recover certain costs or to mitigate the impacts of development on certain City services.

Single-family homes: Recommendation No. R3 in the Grand Jury report focuses on single-family homes. The Board of Supervisors could decide to waive fees for ADUs constructed only on single-family lots in order to specifically alleviate the permit fee burden on single family homeowners.

Presented in Committee - October 3, 2018



*Mitigating the Housing Crisis: Accessory
Dwelling Units and Modular Housing:
Response from the
Mayor's Office of Housing and
Community Development*

CITY AND COUNTY OF
SAN FRANCISCO

October 3, 2018

MAYOR LONDON BREED

Civil Grand Jury Report

Finding 10 Recommendation: “Reserve ground floor space at 1068 Mission and possibly Mission Bay Block 9 for construction training programs, possibly facilitated by CityBuild.”

MOHCD Response: This is a worthy suggestion, but the ground floor space at 1068 Mission is already programmed for homeless services, HSH/DPH operations, and Ecumenical Community Services’ CHEF’s training program. MB Block 9 will use the entire ground floor space for supportive services.



Civil Grand Jury Report

Finding 11 Recommendation: “DBI should regularly inspect modular factories outside the City, if those factories are building housing for the City, to ensure construction is built to City code.”

MOHCD Response: DBI has appointed staff to lead the process for permitting modular housing. MOHCD and DBI are working together closely to create local code compliance specifications that will be required for MOHCD-funded modular housing units. These specs will be integrated into the state housing inspection process.



Civil Grand Jury Report

Finding 12: “Some current trade union contracts prevent the City from using modular construction for City-sponsored, below-market housing projects, and further slow progress on below market housing.”

MOHCD Response: While opposition from some building trades has slowed adoption of modular housing technologies, no specific trade contracts exist that prevent the City's use of modular housing.



Civil Grand Jury Report

Finding 13: “It may take as many as five residential modular construction projects for the City to accurately assess this alternate construction method, including an assessment of cost and time benefits. In addition to the 1068 Mission project, it will be helpful to this assessment if the pending homeless housing project at Mission Bay Block 9 is built using modular construction methods.”

MOHCD Response: MOHCD agrees with this finding. Mission Bay Block 9 will be built using modular technologies, as will the first Treasure Island affordable housing development (Maceo May, for homeless vets).



Civil Grand Jury Report

Additional Information from MOHCD:

MOHCD and OEWD are currently working with a consultant to create a feasibility study/business plan for a modular housing facility located in San Francisco. It is expected to be complete by the end of the year.

The goal of building a local factory is to create housing construction costs savings and quality job opportunities for local workers.





Civil Grand Jury 2017-2018

● Accessory Dwelling Unit & Modular Housing

Daniel Lowrey- Deputy Director of Permit Services, DBI
October 3, 2018 – City Hall, Board Chambers

Respond to CGJ Recommendations

- Over the last six months, DBI has been meeting with Planning and other departments to improve codes/review process relating to ADUs. DBI to submit joint code recommendations to Board by April 2019.
- Shared meeting space already available on fifth floor of DBI's Office at 1660 Mission Street – has been in place since 2014.
- DBI to work with Controller's Office to develop meaningful, outcome-based, performance metrics on ADU permit approval duration, to be reported on OpenData starting January 2019.

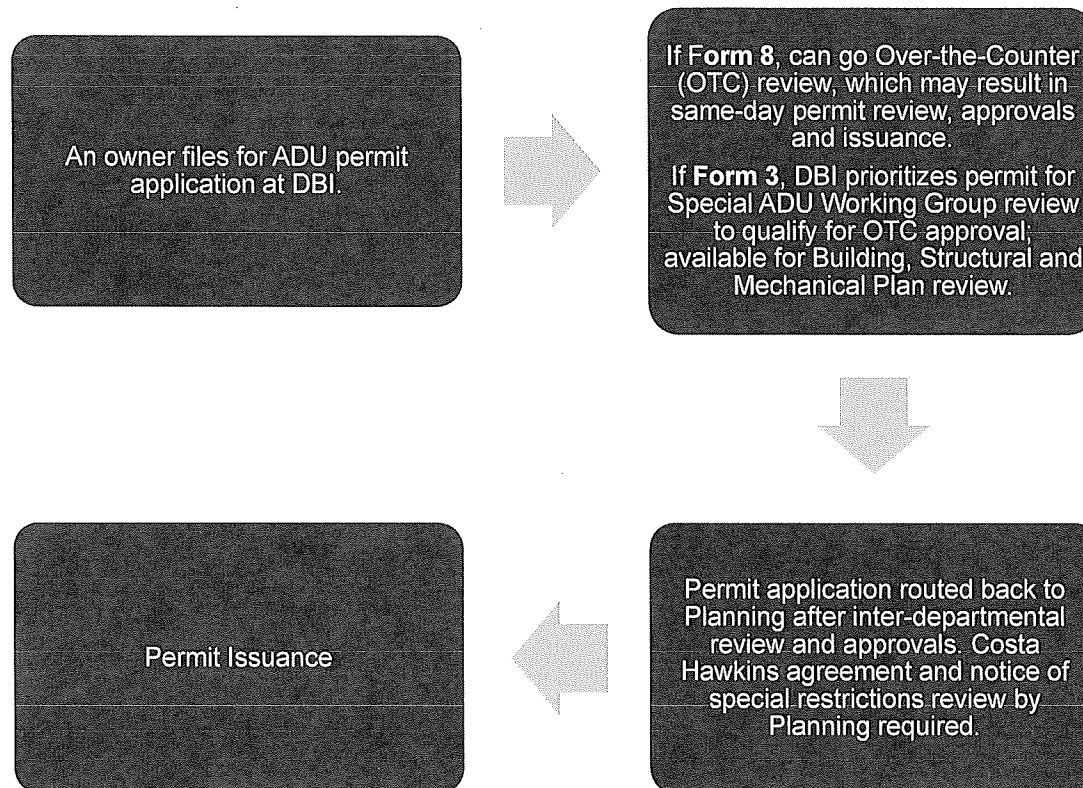


Mayor's Executive Directive 18-01



- 6-months to complete existing backlog ADU applications under review by all City agencies
- 4-months to review/approve any new complete applications received as of 9/4/18
- Applicants' design professionals must respond immediately to department's review comments
- Bi-weekly progress report from inter-departmental ADU unit (DBI, Planning), with first report due to City Hall week of October 1

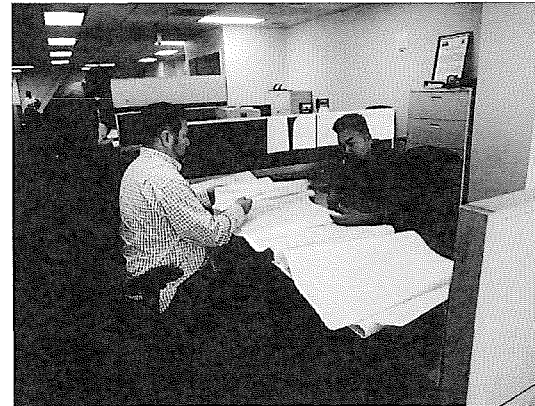
DBI's ADU Current Process



Recent Improvements to Process

Since May 2018, DBI has implemented the following new protocols:

- DBI fast-tracks plan review of ADU permits by approving them through Over-The-Counter (OTC) review, which includes building, structural and mechanical. Permit applicant thus may receive DBI approval the same day, reducing wait-times for most.
- DBI coordinates with SF Planning to allow DBI plan review to occur simultaneously while Planning conducts its review.
- DBI established Special ADU Review Unit led by an experienced senior plan checker to fast-track and prioritize review by DBI staff of ADU permits.
- SF Planning review occurs both at the beginning and the end of the plan review process to ensure Planning requirements are fulfilled.



Amendments Upcoming

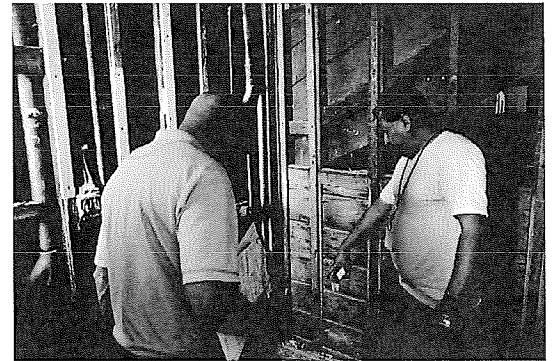
- DBI participates in Supervisor Tang's ADU working group with Planning, Fire, SFPUC, Public Works to improve streamlining procedures and reviews.
- Examples include:
 - Assembling all agency ADU Checklists, and posting these on the DBI web site.
 - Recent passage of Supervisor Tang's Planning Code amendments to allow owners to pay in-lieu fee instead of Street Tree requirements.
 - Possible Building Code amendment coming to require Pre-Application meeting with DBI, Fire and Planning for complicated, mid-block ADU with single tradesmen exit.

CURRENT NUMBERS

	Total
ADU units applied for	889
Application backlog and wait time for each application	65; Average wait time is 19 days between arrival and approval
ADU units approved and issued	345
ADU units built	85
ADU units approved & built subject to rent control	74

Factory-Built Housing (FBH)

- Factory-built housing certified by the State, and receives State approval to show compliance with State building code requirements.
- DBI has a regulatory role to inspect the assembly and installation of the factory-built housing units within the proposed construction, after onsite installation.
- DBI provides foundation review and approval, in addition to conducting and approving R-2 building life-safety systems.
- Current Process Used:
 - Work with architect/engineers on local code amendments to be incorporated into design documents of proposed FBH.



QUESTION & ANSWER

Thank you!

Daniel Lowrey, Deputy Director of Permit Services
Daniel.Lowrey@sfgov.org

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Friday, September 07, 2018 3:23 PM
To: Lori Campbell; Rasha Harvey; Kathleen Lowry; Valdez, Marie (MYR); 'civilgrandjury@sftc.org'; Karunaratne, Kanishka (MYR); Tugbenyoh, Mawuli (MYR); Power, Andres (MYR); Hartley, Kate (MYR); Flannery, Eugene (MYR); Chan, Amy (MYR); Rahaim, John (CPC); Sanchez, Scott (CPC); Gibson, Lisa (CPC); Jain, Devyani (CPC); Rodgers, AnMarie (CPC); Sider, Dan (CPC); Starr, Aaron (CPC); Hui, Tom (DBI); Strawn, William (DBI); Jayin, Carolyn (DBI); Hayes-White, Joanne (FIR); Alves, Kelly (FIR); Nuru, Mohammed (DPW); Steinberg, David (DPW); Spitz, Jeremy (DPW); Blot, Jennifer (DPW); Thomas, John (DPW); Liu, Lena (DPW); Kelly, Jr, Harlan (PUC); Ellis, Juliet (PUC); Hood, Donna (PUC); Scarpulla, John (PUC); Whitmore, Christopher (PUC); Rosenfield, Ben (CON); Rydstrom, Todd (CON); Stevenson, Peg (CON); Lediju, Tonia (CON); Kositsky, Jeff (HOM); Cohen, Emily (HOM); Sesay, Nadia (CII); GIVNER, JON (CAT); Somera, Alisa (BOS); Newman, Debra (BUD); Campbell, Severin (BUD); Clark, Ashley (BUD); Somera, Alisa (BOS); Pereira.Tully, Marisa (MYR); Duong, Noelle (BOS); 'Angulo, Sunny (sunny.angulo@sfgov.org)'; Cancino, Juan Carlos (BOS); Sandoval, Suhagey (BOS)
Subject: 2017-2018 Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing - GAO Committee Hearing - October 3, 2018

Good afternoon,

The Government Audit and Oversight Committee has confirmed its schedule to hear the 2017-2018 Civil Grand Jury reports.

This message serves to inform you that the Committee will consider the report entitled "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing" at its regularly-scheduled meeting on October 3, 2018, at 10:00 a.m. At this meeting, the Committee will hear presentations from the Civil Grand Jury, and review the responses from the departments required to respond to the Civil Grand Jury's findings and recommendations.

The Board of Supervisors is a named respondent for this particular Civil Grand Jury report; the Government Audit and Oversight Committee will consider a resolution responding to the Civil Grand Jury report during this meeting.

The Office of the Clerk of the Board received responses to this Civil Grand Jury report from the Office of the Controller; and, the Mayor's Office submitted a consolidated response to the Civil Grand Jury Report for the following departments: Office of the Mayor; Mayor's Office of Housing and Community Development; Department of Building Inspection; Planning Department; Office of Community Investment and Infrastructure; Fire Department; Department of Homelessness and Supportive Housing; Public Utilities Commission; and Public Works. Please let me know in a response email who to expect in attendance from these departments to present and respond to questions raised by the Committee membership.

We look forward to this hearing. Thank you for your review.

I invite you to review the entire matter on our [Legislative Research Center](#) by following the link below:

[Board of Supervisors File No. 180702](#)

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415) 554-4445

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Thursday, September 06, 2018 11:23 AM
To: Valdez, Marie (MYR); BOS-Supervisors
Cc: BOS-Legislative Aides; Calvillo, Angela (BOS); 'civilgrandjury@sftc.org'; Karunaratne, Kanishka (MYR); Tugbenyoh, Mawuli (MYR); Power, Andres (MYR); Hartley, Kate (MYR); Flannery, Eugene (MYR); Chan, Amy (MYR); Rahaim, John (CPC); Sanchez, Scott (CPC); Gibson, Lisa (CPC); Jain, Devyani (CPC); Rodgers, AnMarie (CPC); Sider, Dan (CPC); Starr, Aaron (CPC); Hui, Tom (DBI); Strawn, William (DBI); Jayin, Carolyn (DBI); Hayes-White, Joanne (FIR); Alves, Kelly (FIR); Nuru, Mohammed (DPW); Steinberg, David (DPW); Spitz, Jeremy (DPW); Blot, Jennifer (DPW); Thomas, John (DPW); Liu, Lena (DPW); Kelly, Jr, Harlan (PUC); Ellis, Juliet (PUC); Hood, Donna (PUC); Scarpulla, John (PUC); Whitmore, Christopher (PUC); Rosenfield, Ben (CON); Rydstrom, Todd (CON); Stevenson, Peg (CON); Lediju, Tonia (CON); Kositsky, Jeff (HOM); Cohen, Emily (HOM); Sesay, Nadia (CII); GIVNER, JON (CAT); Somera, Alisa (BOS); Newman, Debra (BUD); Campbell, Severin (BUD); Clark, Ashley (BUD); Lori Campbell; Kathleen Lowry; Rasha Harvey; Board of Supervisors, (BOS); Mchugh, Eileen (BOS); Somera, Alisa (BOS); Pereira.Tully, Marisa (MYR)
Subject: RE: 2017-2018 Civil Grand Jury Report - Hearing - Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing
Categories: 180701, 180702

Thank you for sending the revised response, Ms. Valdez.

I have updated the Board's files on this report, to reflect receipt. The below links will now take interested parties to the revised documents from the Office of the Mayor.

[Clerk of the Board Memo - September 5, 2018](#)

[Consolidated Response - Mayor - September 3, 2018](#)

I invite you to review the entire matter on our [Legislative Research Center](#) by following the link below:

[Board of Supervisors File No. 180701](#)

For the information of all the recipients of this message: I'm working with the Office of the Chair of the Government Audit and Oversight Committee to finalize the hearing schedule for this year's Civil Grand Jury reports. We should be ready to announce the hearing dates within the day, so expect to see a future message from me in your inbox.

Best to you all,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415) 554-4445



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The [Legislative Research Center](#) provides 24-hour access to Board of Supervisors legislation and archived matters since August 1998.

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From: Valdez, Marie (MYR)

Sent: Thursday, September 06, 2018 10:23 AM

To: Carroll, John (BOS) <john.carroll@sfgov.org>; BOS-Supervisors <bos-supervisors@sfgov.org>

Cc: BOS-Legislative Aides <bos-legislative_aides@sfgov.org>; Calvillo, Angela (BOS) <angela.calvillo@sfgov.org>; 'civilgrandjury@sftc.org' <civilgrandjury@sftc.org>; Karunaratne, Kanishka (MYR) <kanishka.cheng@sfgov.org>; Tugbenyoh, Mawuli (MYR) <mawuli.tugbenyoh@sfgov.org>; Power, Andres (MYR) <andres.power@sfgov.org>; Hartley, Kate (MYR) <kate.hartley@sfgov.org>; Flannery, Eugene (MYR) <eugene.flannery@sfgov.org>; Chan, Amy (MYR) <amy.chan@sfgov.org>; Rahaim, John (CPC) <john.rahaim@sfgov.org>; Sanchez, Scott (CPC) <scott.sanchez@sfgov.org>; Gibson, Lisa (CPC) <lisa.gibson@sfgov.org>; Jain, Devyani (CPC) <devyani.jain@sfgov.org>; Rodgers, AnMarie (CPC) <anmarie.rodgers@sfgov.org>; Sider, Dan (CPC) <dan.sider@sfgov.org>; Starr, Aaron (CPC) <aaron.starr@sfgov.org>; Hui, Tom (DBI) <tom.hui@sfgov.org>; Strawn, William (DBI) <william.strawn@sfgov.org>; Jayin, Carolyn (DBI) <carolyn.jayin@sfgov.org>; Hayes-White, Joanne (FIR) <joanne.hayes-white@sfgov.org>; Alves, Kelly (FIR) <kelly.alves@sfgov.org>; Nuru, Mohammed (DPW) <mohammed.nuru@sfdpw.org>; Steinberg, David (DPW) <david.steinberg@sfdpw.org>; Spitz, Jeremy (DPW) <Jeremy.Spitz@sfdpw.org>; Blot, Jennifer (DPW) <jennifer.blot@sfdpw.org>; Thomas, John (DPW) <John.Thomas@sfdpw.org>; Liu, Lena (DPW) <lena.liu@sfdpw.org>; Kelly, Jr, Harlan (PUC) <HKelly@sfgwater.org>; Ellis, Juliet (PUC) <JEllis@sfgwater.org>; Hood, Donna (PUC) <DHood@sfgwater.org>; Scarpulla, John (PUC) <JScarpulla@sfgwater.org>; Whitmore, Christopher (PUC) <CWhitmore@sfgwater.org>; Rosenfield, Ben (CON) <ben.rosenfield@sfgov.org>; Rydstrom, Todd (CON) <Todd.Rydstrom@sfgov.org>; Stevenson, Peg (CON) <peg.stevenson@sfgov.org>; Lediju, Tonia (CON) <tonia.lediju@sfgov.org>; Kositsky, Jeff (HOM) <jeff.kositsky@sfgov.org>; Cohen, Emily (HOM) <emily.cohen@sfgov.org>; Sesay, Nadia (CII) <nadia.sesay@sfgov.org>; GIVNER, JON (CAT) <Jon.Givner@sfcityatty.org>; Somera, Alisa (BOS) <alisa.somera@sfgov.org>; Newman, Debra (BUD) <debra.newman@sfgov.org>; Campbell, Severin (BUD) <severin.campbell@sfgov.org>; Clark, Ashley (BUD) <ashley.clark@sfgov.org>; Lori Campbell <lori.j.campbell@comcast.net>; Kathleen Lowry <kathie.l.lowry@gmail.com>; Rasha Harvey <r.harvey@sfcgj.org>; Board of Supervisors, (BOS) <board.of.supervisors@sfgov.org>; Mchugh, Eileen (BOS) <eileen.e.mchugh@sfgov.org>; Somera, Alisa (BOS) <alisa.somera@sfgov.org>; Pereira.Tully, Marisa (MYR) <marisa.pereira.tully@sfgov.org>

Subject: RE: 2017-2018 Civil Grand Jury Report - Hearing - Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing

Good morning,

An update has been made to the letter that accompanies the consolidated response from the Office of the Mayor to the 2017-2018 Civil Grand Jury report entitled "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing." The Superior Court has agreed to accept the updated letter as part of the official response. We ask that the Clerk of the Board of Supervisors please update Legistar to replace the filed letter with this final submission. Please find the updated letter attached and retain only this version for your records.

Thank you,

Marie Valdez

Mayor's Office of Public Policy and Finance
City and County of San Francisco
marie.valdez@sfgov.org | (415) 554-5965



From: Carroll, John (BOS)

Sent: Wednesday, September 05, 2018 4:13 PM

To: BOS-Supervisors <bos-supervisors@sfgov.org>

Cc: BOS-Legislative Aides <bos-legislative_aides@sfgov.org>; Calvillo, Angela (BOS) <angela.calvillo@sfgov.org>; 'civilgrandjury@sftc.org' <civilgrandjury@sftc.org>; Karunaratne, Kanishka (MYR) <kanishka.cheng@sfgov.org>; Tugbenyoh, Mawuli (MYR) <mawuli.tugbenyoh@sfgov.org>; Power, Andres (MYR) <andres.power@sfgov.org>; Valdez, Marie (MYR) <Marie.Valdez@sfgov.org>; Hartley, Kate (MYR) <kate.hartley@sfgov.org>; Flannery, Eugene (MYR) <eugene.flannery@sfgov.org>; Chan, Amy (MYR) <amy.chan@sfgov.org>; Rahaim, John (CPC) <john.rahaim@sfgov.org>; Sanchez, Scott (CPC) <scott.sanchez@sfgov.org>; Gibson, Lisa (CPC) <lisa.gibson@sfgov.org>; Jain, Devyani (CPC) <devyani.jain@sfgov.org>; Rodgers, AnMarie (CPC) <anmarie.rodgers@sfgov.org>; Sider, Dan (CPC) <dan.sider@sfgov.org>; Starr, Aaron (CPC) <aaron.starr@sfgov.org>; Hui, Tom (DBI) <tom.hui@sfgov.org>; Strawn, William (DBI) <william.strawn@sfgov.org>; Jayin, Carolyn (DBI) <carolyn.jayin@sfgov.org>; Hayes-White, Joanne (FIR) <joanne.hayes-white@sfgov.org>; Alves, Kelly (FIR) <kelly.alves@sfgov.org>; Nuru, Mohammed (DPW) <mohammed.nuru@sfdpw.org>; Steinberg, David (DPW) <david.steinberg@sfdpw.org>; Spitz, Jeremy (DPW) <Jeremy.Spitz@sfdpw.org>; Blot, Jennifer (DPW) <jennifer.blot@sfdpw.org>; Thomas, John (DPW) <John.Thomas@sfdpw.org>; Liu, Lena (DPW) <lena.liu@sfdpw.org>; Kelly, Jr, Harlan (PUC) <HKelly@sfgwater.org>; Ellis, Juliet (PUC) <JEllis@sfgwater.org>; Hood, Donna (PUC) <DHood@sfgwater.org>; Scarpulla, John (PUC) <JScarpulla@sfgwater.org>; Whitmore, Christopher (PUC) <CWhitmore@sfgwater.org>; Rosenfield, Ben (CON) <ben.rosenfield@sfgov.org>; Rydstrom, Todd (CON) <Todd.Rydstrom@sfgov.org>; Stevenson, Peg (CON) <peg.stevenson@sfgov.org>; Lediju, Tonia (CON) <tonia.lediju@sfgov.org>; Kositsky, Jeff (HOM) <jeff.kositsky@sfgov.org>; Cohen, Emily (HOM) <emily.cohen@sfgov.org>; Sesay, Nadia (CII) <nadia.sesay@sfgov.org>; GIVNER, JON (CAT) <Jon.Givner@sfcityattys.org>; Somera, Alisa (BOS) <alisa.somera@sfgov.org>; Newman, Debra (BUD) <debra.newman@sfgov.org>; Campbell, Severin (BUD) <severin.campbell@sfgov.org>; Clark, Ashley (BUD) <ashley.clark@sfgov.org>; Lori Campbell <lori.j.campbell@comcast.net>; Kathleen Lowry <kathie.l.lowry@gmail.com>; Rasha Harvey <r.harvey@sfcgi.org>; Board of Supervisors, (BOS) <board.of.supervisors@sfgov.org>; Mchugh, Eileen (BOS) <eileen.e.mchugh@sfgov.org>

Subject: 2017-2018 Civil Grand Jury Report - Hearing - Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing

Supervisors:

The Office of the Clerk of the Board has received required responses to the 2017-2018 Civil Grand Jury report entitled **"Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing,"** from the Office of the Controller and the Office of the Mayor. The Office of the Mayor submitted a consolidated response on behalf of the Mayor's Office of Housing and Community Development, the Department of Building Inspection, the Planning Department, the Office of Community Investment and Infrastructure, the Fire Department, the Department of Homelessness and Supportive Housing, the Public Utilities Commission, and Public Works. Please find the following link to an informational memo from the Clerk of the Board of Supervisors, and direct links to the responses.

[Clerk of the Board Memo - September 5, 2018](#)

[Controller Response - August 17, 2018](#)

[Consolidated Response - Mayor - September 3, 2018](#)

Please note that the Board of Supervisors is required to respond by resolution to this Civil Grand Jury report. The Government Audit and Oversight Committee will consider the subject report, along with the responses, and will prepare the Board's official response by Resolution for the full Board's consideration at an upcoming hearing.

I invite you to review the entire matter on our [Legislative Research Center](#) by following the link below:

Board of Supervisors File No. 180701

Thank you,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415) 554-4445



Click [here](#) to complete a Board of Supervisors Customer Service Satisfaction form.

The [Legislative Research Center](#) provides 24-hour access to Board of Supervisors legislation and archived matters since August 1998.

***Disclosures:** Personal information that is provided in communications to the Board of Supervisors is subject to disclosure under the California Public Records Act and the San Francisco Sunshine Ordinance. Personal information provided will not be redacted. Members of the public are not required to provide personal identifying information when they communicate with the Board of Supervisors and its committees. All written or oral communications that members of the public submit to the Clerk's Office regarding pending legislation or hearings will be made available to all members of the public for inspection and copying. The Clerk's Office does not redact any information from these submissions. This means that personal information—including names, phone numbers, addresses and similar information that a member of the public elects to submit to the Board and its committees—may appear on the Board of Supervisors website or in other public documents that members of the public may inspect or copy.*

OFFICE OF THE MAYOR
SAN FRANCISCO



LONDON N. BREED
MAYOR

September 3, 2018

The Honorable Teri L. Jackson
Presiding Judge, Superior Court of California, County of San Francisco
400 McAllister Street, Room 008
San Francisco, CA 94102

Dear Judge Jackson:

Pursuant to Penal Code sections 933 and 933.05, the following is in reply to the 2017-18 Civil Grand Jury report, *Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing*. We would like to thank the members of the Civil Grand Jury for their efforts to promote innovative methods to alleviate the City's housing crisis.

We strongly agree with premise of the report: that the City must build significantly more housing to meet the needs of a growing City. We agree that non-traditional types of building, like Accessory Dwelling Units (ADUs) and modular housing, have tremendous potential to add to the City's housing supply while requiring less public subsidy, less time to build, and fewer of the impacts to neighborhood character that often generate opposition to new housing. We agree that for both ADUs and modular housing, the City needs to take concrete action to facilitate the adoption of the technology through smart public policy and comprehensive community outreach.

With regards to ADUs, we acknowledge that the lengthy permitting process and strict building codes are one reason more ADUs have not been built. Through better coordination between City departments, permitting times have already fallen significantly. We will continue to strive for more improvement. The City has already taken significant action to make the planning, building, and fire codes less of an obstacle for property owners who wish to build ADUs in their building. That is why the Mayor issued an Executive Directive on Thursday, August 30th to both speed up the process of approving new ADU applications and clear the backlog of older applications. From this point forward, it should only takes four months for the City to review a completed application to construct an ADU and only six months to clear the 900 unit backlog of permits. There exists significant potential to make the building codes less restrictive and more flexible – allowing easier and more affordable construction of ADUs with no diminished safety for residents. However, elements of the building and fire code that are governed by the State code do not allow the City to make our local code less restrictive. This remains a significant challenge.

With regards to modular housing, we are supportive of the establishment of a union-staffed modular housing factory in the City limits. This will ensure a sufficient supply of housing units to serve the City's affordable housing pipeline for formerly homeless individuals while guaranteeing quality control and code compliance. Furthermore, it will leverage the skills and capacity of our local building trades, protecting local jobs while delivering housing in a shorter time at a lower cost.

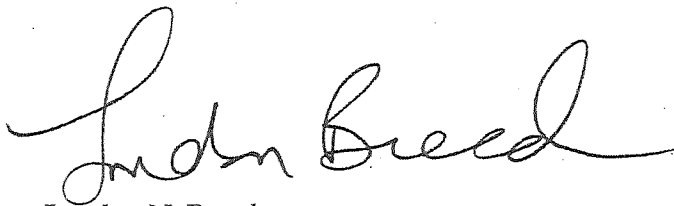
While we are not named as respondents to the report's Finding 1, we wanted to take this opportunity to respond to the Finding, which states that San Francisco "has produced more than the required market rate housing to satisfy demand, but not nearly enough below market rate housing." We agree that production of below market rate housing has not met minimum targets in the Regional Housing Needs Assessment

(RHNA) and has not met the needs of tens of thousands of low and moderate income households that are cost burdened or face other housing challenges. Regarding production of market rate housing, however, we believe that meeting minimum production targets in RHNA is not the same as meeting market demand and that there is ample evidence that demand from higher income households has exceeded production, placing greater pressures on the City's housing stock and residents with low to middle incomes. Therefore, the need to facilitate housing production highlighted in the report extends to housing for all income groups.

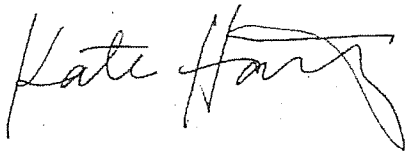
A detailed response from the Mayor's Office, Mayor's Office of Housing and Community Development, Department of Building Inspection, Department of City Planning, Department of Homelessness and Supportive Housing, Department of Public Works, Fire Department, Office of Community Investment and Infrastructure, and Public Utilities Commission to the Civil Grand Jury's findings and recommendations are attached.

Thank you again for the opportunity to comment on this Civil Grand Jury report.

Sincerely,



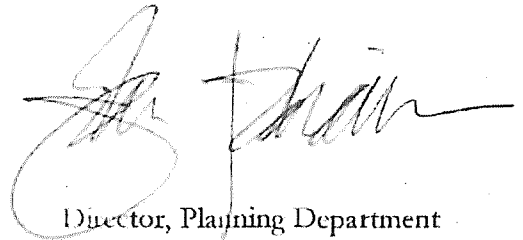
London N. Breed
Mayor



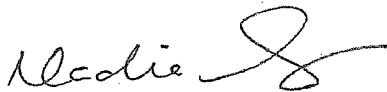
Director, Mayor's Office of
Housing and Community
Development



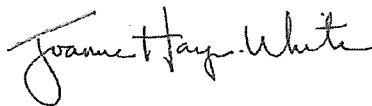
Director, Department of
Building Inspection



Director, Planning Department



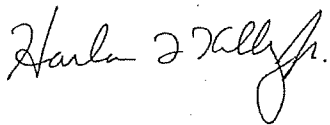
Executive Director, Office of
Community Investment and
Infrastructure



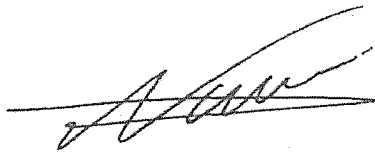
Chief, Fire Department



Director, Department of
Homelessness and Supportive
Housing



General Manager, Public Utilities
Commission



Director, Public Works

RESPONSES TO 2017-2018 CIVIL GRAND JURY FINDINGS AND RECOMMENDATIONS

Report Title [Publication Date]	F#	Finding (text may be duplicated due to spanning and multiple respondent effects)	Respondent Assigned by CGJ (Response Due Date)	Finding Response (Agree/Disagree)	Finding Response Text	RF [for F#]	Recommendation (text may be duplicated due to spanning and multiple respondent effects)	Respondent Assigned by CGJ (Response Due Date)	Recommendation Response (Implementation)	Recommendation Response Text
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F1	The City has produced more than the required market rate housing to satisfy market demand using traditional building practices, but not nearly enough below market rate housing. Taking better advantage of alternative construction methods can increase the City's ability to narrow the below-market housing gap.								
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F2	Construction of ADUs can add a meaningful number of moderately priced rental housing units in San Francisco, with no significant burden on City finances. Therefore, encouraging ADU development is of value to San Francisco.	Planning Department [Response due: September 3, 2018]	Agree with the finding		R1 [F2, F8]	Recommends the Planning Department and the Department of Building Inspection jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADUs.	Planning Department [Response due: September 3, 2018]	Will be Implemented	Over the last six months, DBI, Planning, Fire Department, PUC, Public Works-BSM and representatives from the Mayor's Office and Board of Supervisors have been meeting to review codes and develop recommendations to encourage ADU construction. Through this interagency working group, staff have developed preliminary checklists for each respective department's requirements to expedite and streamline ADU approval. Several rounds of amendments have increased flexibility for property owners to add units to their property. Still, further analysis is warranted to analyze City codes for further recommendations. Planning and DBI will jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADU's.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F2	Construction of ADUs can add a meaningful number of moderately priced rental housing units in San Francisco, with no significant burden on City finances. Therefore, encouraging ADU development is of value to San Francisco.	Department of Building Inspection [Response due: September 3, 2018]	Agree with the finding		R1 [F2, F8]	Recommends the Planning Department and the Department of Building Inspection jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADUs.	Department of Building Inspection [Response due: September 3, 2018]	Will be Implemented	Over the last six months, DBI, Planning, Fire Department, PUC, Public Works-BSM and representatives from the Mayor's Office and Board of Supervisors have been meeting to review codes and develop recommendations to encourage ADU construction. Through this interagency working group, staff have developed preliminary checklists for each respective department's requirements to expedite and streamline ADU approval. DBI is participating in a working group with Supervisor Tang to address improvements to the ordinance, which expands the OTC approval process to include other city agencies (PUC, Public Works-BSM, Fire Department and Planning). Planning and DBI will jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADU's.

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F3	The City has provided a program to encourage ADU construction, and as a result, the number of ADU permit applications has been growing dramatically. Further improvements to this program will help ADU construction to continue on a successful trajectory.	Department of Building Inspection [Response due: September 3, 2018]	Agree with the finding		R6 [F3, F4]	Recommends the Department of Building Inspection work with the Department of the Controller to develop meaningful, outcome-based performance metrics on ADU permit approval duration, to be reported on OpenData starting January 2019.	Department of Building Inspection [Response due: September 3, 2018]	Will be implemented	The Department of Building Inspection will work with the Department of the Controller to develop meaningful, outcome-based performance metrics on ADU permit approval duration, to be reported on OpenData starting January 2019.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F4	The length of the permitting process for ADUs is a major factor in limiting the speed of bringing ADUs to market to help meet the housing shortage. Shortening the ADU permitting process both expedites and encourages ADU construction.	Planning Department [Response due: September 3, 2018]	Agree with the finding		R4 [F2, F4, F5]	Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process.	Planning Department [Response due: September 3, 2018]	Has been implemented	DBI, Planning, SFFD, DPW, and PUC currently have staff members located together at a shared meeting space on the fifth floor at 1660 Mission Street to expedite the ADU permit approval process.
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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F5	The Planning Department expects to establish a one-stop permit center in its new building, which would bring together all agencies involved in the permit process, and thereby expedite approvals, but the new building won't be ready until 2020; therefore, interim measures to expedite ADU approvals are needed.	Planning Department [Response due: September 3, 2018]	Disagree, partially	The Department is in agreement that interim measures to expedite ADU approvals are needed ahead of the opening of the one stop permit center in 2020. The Department disagrees with the characterization that the Planning Department will be the entity establishing the one stop permit center and the characterization that the new building will belong to the planning department. Rather, the one stop permit center will be established and run by the City Administrator. The building at 49 South Van Ness will belong to the City and will be managed by the Department of Real Estate.	R4 [F2, F4, F5]	Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process.	Planning Department [Response due: September 3, 2018]	Has been implemented	DBI, Planning, SFFD, DPW, and PUC currently have staff members located together at a shared meeting space on the fifth floor at 1660 Mission Street to expedite the ADU permit approval process.
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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F5	The Planning Department expects to establish a one-stop permit center in its new building, which would bring together all agencies involved in the permit process, and thereby expedite approvals, but the new building won't be ready until 2020; therefore, interim measures to expedite ADU approvals are needed.	Fire Department [Response due: September 3, 2018]	Disagree, partially	The Department is in agreement that interim measures to expedite ADU approvals are needed ahead of the opening of the one stop permit center in 2020. The Department disagrees with the characterization that the Planning Department will be the entity establishing the one stop permit center and the characterization that the new building will belong to the planning department. Rather, the one stop permit center will be established and run by the City Administrator. The building at 49 South Van Ness will belong to the City and will be managed by the Department of Real Estate.	R4 [F2, F4, F5]	Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process.	Fire Department [Response due: September 3, 2018]	Has been implemented	DBI, Planning, SFFD, DPW, and PUC currently have staff members located together at a shared meeting space on the fifth floor at 1660 Mission Street to expedite the ADU permit approval process.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F5	The Planning Department expects to establish a one-stop permit center in its new building, which would bring together all agencies involved in the permit process, and thereby expedite approvals, but the new building won't be ready until 2020; therefore, interim measures to expedite ADU approvals are needed.	Department of Public Works [Response due: September 3, 2018]	Disagree, partially	The Department is in agreement that interim measures to expedite ADU approvals are needed ahead of the opening of the one stop permit center in 2020. The Department disagrees with the characterization that the Planning Department will be the entity establishing the one stop permit center and the characterization that the new building will belong to the planning department. Rather, the one stop permit center will be established and run by the City Administrator. The building at 49 South Van Ness will belong to the City and will be managed by the Department of Real Estate.	R4 [F2, F4, F5]	Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process.	Department of Public Works [Response due: September 3, 2018]	Has been implemented	DBI, Planning, SFFD, DPW, and PUC currently have staff members located together at a shared meeting space on the fifth floor at 1660 Mission Street to expedite the ADU permit approval process.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F5	The Planning Department expects to establish a one-stop permit center in its new building, which would bring together all agencies involved in the permit process, and thereby expedite approvals, but the new building won't be ready until 2020; therefore, interim measures to expedite ADU approvals are needed.	Public Utilities Commission [Response due: September 3, 2018]	Disagree, partially	The Department is in agreement that interim measures to expedite ADU approvals are needed ahead of the opening of the one stop permit center in 2020. The Department disagrees with the characterization that the Planning Department will be the entity establishing the one stop permit center and the characterization that the new building will belong to the planning department. Rather, the one stop permit center will be established and run by the City Administrator. The building at 49 South Van Ness will belong to the City and will be managed by the Department of Real Estate.	R4 [F2, F4, F5]	Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process.	Public Utilities Commission [Response due: September 3, 2018]	Has been implemented	DBI, Planning, SFFD, DPW, and PUC currently have staff members located together at a shared meeting space on the fifth floor at 1660 Mission Street to expedite the ADU permit approval process.

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F6	The City's ADU program acknowledges the value to the City of increasing ADU construction. Homeowners who construct ADUs do so voluntarily and at their own expense. The additional burden of heavy permit fees is counterproductive to the City's goal of increasing the rate of ADU construction, in that it represents an additional barrier to building ADUs for single family homeowners, and therefore likely reduces the number of applications.	Department of Building Inspection [Response due: September 3, 2018]	Disagree, partially	More research is required on the reasons more single-family homeowners are not applying for ADUs in San Francisco, which may mirror larger state and national trends. In our experience, fees have not been noted as a key barrier. The cost of building materials and construction labor drive the cost of the ADU project, as these hard costs plus the soft costs such as designer fees and permit fees (which are often a percentage of the hard costs) form a bulk of project costs; other project fees may include water and power connection charges, development impact fees, school district fees, which are dependent on scope of project. Anecdotal reasons that are discussed frequently as barriers include: the lack of financing through existing mechanisms, the burden of construction loan payments, limited public outreach, and the duration of permit review.					
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F6	The City's ADU program acknowledges the value to the City of increasing ADU construction. Homeowners who construct ADUs do so voluntarily and at their own expense. The additional burden of heavy permit fees is counterproductive to the City's goal of increasing the rate of ADU construction, in that it represents an additional barrier to building ADUs for single family homeowners, and therefore likely reduces the number of applications.	Planning Department [Response due: September 3, 2018]	Disagree, partially	More research is required on the reasons more single-family homeowners are not applying for ADUs in San Francisco, which may mirror larger state and national trends. In our experience, fees have not been noted as a key barrier. The cost of building materials and construction labor drive the cost of the ADU project, as these hard costs plus the soft costs such as designer fees and permit fees (which are often a percentage of the hard costs) form a bulk of project costs; other project fees may include water and power connection charges, development impact fees, school district fees, which are dependent on scope of project. Anecdotal reasons that are discussed frequently as barriers include: the lack of financing through existing mechanisms, the burden of construction loan payments, limited public outreach, and the duration of permit review.					
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F7	Cities that lower permitting fees for ADUs, as Portland, Seattle and Vancouver, BC have done, see an increase in the number of permit applications by single family homeowners; if San Francisco reduces permitting fees for that type of ADU permit applications, they are likely to increase.	Department of Building Inspection [Response due: September 3, 2018]	Agree with the finding						
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F7	Cities that lower permitting fees for ADUs, as Portland, Seattle and Vancouver, BC have done, see an increase in the number of permit applications by single family homeowners; if San Francisco reduces permitting fees for that type of ADU permit applications, they are likely to increase.	Planning Department [Response due: September 3, 2018]	Agree with the finding						

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F8	The City's Building and related construction codes place limitations on what can be built, inhibiting some homeowners from building ADUs. Allowing exceptions from these requirements, when it can be done without compromising safety, helps homeowners add ADUs to their homes.	Planning Department [Response due: September 3, 2018]	Disagree, partially	The ADU program already includes much flexibility from the Planning Code requirements, which regulates quality of life in the unit. Basic health and safety requirements are regulated by the Building Code which is also constrained by the State Code. The City is exploring ways to ease Building and Fire Code standards within the limitations of the State Law. This is difficult, however, because the City's discretion to change these codes is limited to making those codes more-- not less-- restrictive. Local jurisdictions cannot waive or be less restrictive than State mandate. A homeowner/ADU applicant may request an alternative means of protection equal to or greater than prescribed requirements.	R1 [F2, F8]	Recommends the Planning Department and the Department of Building Inspection jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADUs.	Planning Department [Response due: September 3, 2018]	Will be implemented	Over the last six months, DBI, Planning, Fire Department, PUC, Public Works-BSM and representatives from the Mayor's Office and Board of Supervisors have been meeting to review codes and develop recommendations to encourage ADU construction. Through this interagency working group, staff have developed preliminary checklists for each respective department's requirements to expedite and streamline ADU approval. Several rounds of amendments have increased flexibility for property owners to add units to their property. Still, further analysis is warranted to analyze City codes for further recommendations. Planning and DBI will jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADU's.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F8	The City's Building and related construction codes place limitations on what can be built, inhibiting some homeowners from building ADUs. Allowing exceptions from these requirements, when it can be done without compromising safety, helps homeowners add ADUs to their homes.	Department of Building Inspection [Response due: September 3, 2018]	Disagree, partially	The ADU program already includes much flexibility from the Planning Code requirements, which regulates quality of life in the unit. Basic health and safety requirements are regulated by the Building Code which is also constrained by the State Code. The City is exploring ways to ease Building and Fire Code standards within the limitations of the State Law. This is difficult, however, because the City's discretion to change these codes is limited to making those codes more-- not less-- restrictive. Local jurisdictions cannot waive or be less restrictive than State mandate. A homeowner/ADU applicant may request an alternative means of protection equal to or greater than prescribed requirements.	R1 [F2, F8]	Recommends the Planning Department and the Department of Building Inspection jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADUs.	Department of Building Inspection [Response due: September 3, 2018]	Will be implemented	Over the last six months, DBI, Planning, Fire Department, PUC, Public Works-BSM and representatives from the Mayor's Office and Board of Supervisors have been meeting to review codes and develop recommendations to encourage ADU construction. Through this interagency working group, staff have developed preliminary checklists for each respective department's requirements to expedite and streamline ADU approval. Several rounds of amendments have increased flexibility for property owners to add units to their property. Still, further analysis is warranted to analyze City codes for further recommendations. Planning and DBI will jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADU's.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F8	The City's Building and related construction codes place limitations on what can be built, inhibiting some homeowners from building ADUs. Allowing exceptions from these requirements, when it can be done without compromising safety, helps homeowners add ADUs to their homes.	Planning Department [Response due: September 3, 2018]	Disagree, partially	The ADU program already includes much flexibility from the Planning Code requirements, which regulates quality of life in the unit. Basic health and safety requirements are regulated by the Building Code which is also constrained by the State Code. The City is exploring ways to ease Building and Fire Code standards within the limitations of the State Law. This is difficult, however, because the City's discretion to change these codes is limited to making those codes more-- not less-- restrictive. Local jurisdictions cannot waive or be less restrictive than State mandate. A homeowner/ADU applicant may request an alternative means of protection equal to or greater than prescribed requirements.	R9 [F2, F8]	Recommends the Planning Department waive parking space requirements for ADUs built in single-family residences.	Planning Department [Response due: September 3, 2018]	Has been implemented	The Planning Code does not require parking for addition of one unit to any building. This control was already in place even before the ADU program. The ADU program expanded this by not requiring parking for ADUs, even when more than one ADU is proposed at one property. The Planning Code permits this through the provision of bicycle parking at the property, or through the granting of an administrative exception to the parking requirement per the ADU program. The ADU program made removing existing required parking also possible. This provision was built into the ADU program since its early inception in 2014. The Planning Code permits this through the provision of bicycle parking at the property, or through the granting of an administrative exception to the parking requirement per the ADU program.

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F9	The Planning Department's current public outreach program is a good start, but the material needs to be updated, and it is not reaching enough people. Better outreach directed to more homeowners will likely lead to an increase in applications for construction of ADUs in single family homes.	Planning Department [Response due: September 3, 2018]	Agree with the finding		R10 [F2, F9]	Recommends the Planning Department expand its public outreach on ADUs to increase homeowner awareness of ADU opportunities.	Planning Department [Response due: September 3, 2018]	Will be implemented	<p>To date, the Planning Department has conducted the following to market and publicize the ADU program: Developed an ADU handbook that include six ADU prototypes, developed an ADU video, created user friendly Fact Sheets, hosted, co-hosted, and attended public events to present the program and answer common public questions. Moving forward, the ADU Planning team received a grant for community outreach from Friends of City Planning (FOCP) for \$29,000 to update and create materials, and facilitate community outreach. Part of the grant is for contracting a consultant to update the ADU Handbook for updated prototypes to reflect Code changes and conduct an updated financial analysis. Anticipated timeline for finalization is late Fall of 2018*. This ADU Handbook is a free online resource, and is used by design professionals and homeowners to learn about how an ADU could fit on their property, as well as used as a resource at outreach events.</p> <p>Furthermore, Planning will create a one-stop online ADU resource portal anticipated by end of Q3 2018. These tools will be aimed to single family homeowner audience and to multi-unit homeowner audience.</p> <p>The community outreach (Planning and DBI) anticipated timeline is as follows:</p> <ul style="list-style-type: none"> o To design professionals fall 2018*. o To single-family homeowners Q4 2018 - Q1 2019*. <p>*Predicated on DBI & Fire mutually agreeing on equivalencies.</p>
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F10	Spaces at the 1068 Mission and possibly the Mission Bay Block 9 homeless housing projects may be suitable for construction trade "soft skills" training—preparatory training for construction work. This could be facilitated by DSHS as part of the CityBuild program. The end result could be a strengthened labor force.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Disagree, wholly	<p>While the idea to use the 1068 site for construction trades training for residents is a good one, the space has already been programmed to be used for the CHEF's program. The CHEF's program is currently in operation at other locations, replicable by ECS at the 1068 site, and has a proven track record regarding employment for formerly homeless persons. Additionally, restrictions bestowed on the site when transferred from the federal government mandate that the site be used only to serve formerly homeless individuals, which would limit participation in a construction training program.</p> <p>Mission Bay Block 9 is similarly not available for a construction training program because the demand for robust supportive services at Mission Bay South Block 9 requires the entirety of the project's ground floor space not otherwise used for mechanical and utility uses. The non-mechanical/utility ground floor uses include suites to accommodate supportive services, property management functions, exam rooms, community room and kitchen, and a lounge.</p>	R5 [F10]	Recommends that MOHCD and OCJL require the managers of 1068 Mission Street and possibly Mission Bay Block 9 to reserve ground floor space for use in training construction workers, including training in ADU construction methods and modular unit construction work.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Will not be implemented because it is not warranted or reasonable	<p>While the idea to use the 1068 site for construction trades training for residents is a good one, the space has already been programmed to be used for the CHEF's program. The CHEF's program is currently in operation at other locations, replicable by ECS at the 1068 site, and has a proven track record regarding employment for formerly homeless persons. Additionally, restrictions bestowed on the site when transferred from the federal government mandate that the site be used only to serve formerly homeless individuals, which would limit participation in a construction training program.</p> <p>Mission Bay Block 9 is similarly not available for a construction training program because the demand for robust supportive services at Mission Bay South Block 9 requires the entirety of the project's ground floor space not otherwise used for mechanical and utility uses. The non-mechanical/utility ground floor uses include suites to accommodate supportive services, property management functions, exam rooms, community room and kitchen, and a lounge.</p>

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F11	When the City is building housing using factory-constructed modules from outside the City, the factory construction of those modules is subject to state building codes but not local building codes. If local building codes are not taken into account at the factory, there can be code compliance problems at the project site.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Disagree, partially	Factory-built housing is required to be certified and receive a State insignia of approval to show compliance with State building code requirements. The City's goal is to have fully code-compliant modular housing that is high quality and long lasting. To accomplish this, during production of housing modules bound for San Francisco, City codes will be adhered to at the factory to ensure there is no code compliance issue at the project site.	R8 [F11]	Recommends the Department of Building Inspection regularly inspect modular factories outside the City, if those factories are building housing for the City, to ensure construction is built to comply with City codes.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Will not be implemented because it is not warranted or reasonable.	It is critical that housing units built in factories outside of San Francisco comply with our local code and are built to a standard that ensures safety and quality. However, it will be far more efficient to have DBI participate in reviewing and approving the plans and inspection procedures at the factory before manufacturing begins.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F11	When the City is building housing using factory-constructed modules from outside the City, the factory construction of those modules is subject to state building codes but not local building codes. If local building codes are not taken into account at the factory, there can be code compliance problems at the project site.	Department of Building Inspection [Response due: September 3, 2018]	Disagree, partially	Factory-built housing is required to be certified and receive a State insignia of approval to show compliance with State building code requirements. The City's goal is to have fully code-compliant modular housing that is high quality and long lasting. To accomplish this, during production of housing modules bound for San Francisco, City codes will be adhered to at the factory to ensure there is no code compliance issue at the project site.	R8 [F11]	Recommends the Department of Building Inspection regularly inspect modular factories outside the City, if those factories are building housing for the City, to ensure construction is built to comply with City codes.	Department of Building Inspection [Response due: September 3, 2018]	Will not be implemented because it is not warranted or reasonable.	It is critical that housing units built in factories outside of San Francisco comply with our local code and are built to a standard that ensures safety and quality. However, it will be far more efficient to have DBI participate in reviewing and approving the plans and inspection procedures at the factory before manufacturing begins.
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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F12	Some current trade union contracts prevent the City from using modular construction for City-sponsored below market housing projects, and further slow progress on below market housing.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Disagree, partially	While opposition from some building trades has slowed adoption of modular housing technologies, no specific trade contracts exist that prevent the City's use of modular housing.					
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F12	Some current trade union contracts prevent the City from using modular construction for City-sponsored below market housing projects, and further slow progress on below market housing.	Mayor [Response due: September 3, 2018]	Disagree, partially	While opposition from some building trades has slowed adoption of modular housing technologies, no specific trade contracts exist that prevent the City's use of modular housing.	R11 [F12, F14]	Recommends the Mayor support the establishment of a union-staffed modular housing factory in San Francisco.	Mayor [Response due: September 3, 2018]	Has been implemented.	In January 2018, Mayor Breed announced her support of the development of a plan to establish a modular housing factory within the City limits staffed by union labor. The City has hired a consultant to review whether a modular factory staffed by union workers is feasible. The city expects the consultants to work to conclude by the end of this year.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F13	It may take as many as five residential modular construction projects for the City to accurately assess this alternate construction method, including an assessment of cost and time benefits. In addition to the 1068 Mission project, it will be helpful to this assessment if the pending homeless housing project at Mission Bay Block 9 is built using modular construction methods.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Agree with the finding						

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Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F13	It may take as many as five residential modular construction projects for the City to accurately assess this alternate construction method, including an assessment of cost and time benefits. In addition to the 1068 Mission project, it will be helpful to this assessment if the pending homeless housing project at Mission Bay Block 9 is built using modular construction methods.	Office of Community Investment and Infrastructure [Response due: September 3, 2018]	Agree with the finding		R7 [F13]	Recommends the Office of Community Investment and Infrastructure make its best effort to encourage the developer to use modular construction for the Mission Bay Block 9 homeless housing project.	Office of Community Investment and Infrastructure [Response due: September 3, 2018]	Has been implemented	In OCII's Request for Proposals for Mission Bay South Block 9 issued in 2017, OCII included a requirement for developers to pursue alternative construction technologies such as modular. As a result, the selected developer team's architect has designed the project for modular construction to comply with the RFP.
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F14	The building trade unions are open to talks with the City to establish a factory for modular unit construction in San Francisco, staffed by union workers, and committed to best practices, and this is a promising start to trade union acceptance of modular construction technology.	Mayor's Office of Housing and Community Development [Response due: September 3, 2018]	Agree with the finding						
Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing [Published: July 5, 2018]	F14	The building trade unions are open to talks with the City to establish a factory for modular unit construction in San Francisco, staffed by union workers, and committed to best practices, and this is a promising start to trade union acceptance of modular construction technology.	Mayor [Response due: September 3, 2018]	Agree with the finding		R11 [F12, F14]	Recommends the Mayor support the establishment of a union-staffed modular housing factory in San Francisco.	Mayor [Response due: September 3, 2018]	Has been implemented	In January 2018, Mayor Breed announced her support of the development of a plan to establish a modular housing factory within the City limits staffed by union labor. The City has hired a consultant to review whether a modular factory staffed by union workers is feasible. The City expects the consultants to work to conclude by the end of this year.

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Wednesday, September 05, 2018 4:13 PM
To: BOS-Supervisors
Cc: BOS-Legislative Aides; 'Calvillo, Angela (angela.calvillo@sfgov.org)'; 'civilgrandjury@sftc.org'; Karunaratne, Kanishka (MYR); Tugbenyoh, Mawuli (MYR); Power, Andres (MYR); Valdez, Marie (MYR); Hartley, Kate (MYR); Flannery, Eugene (MYR); Chan, Amy (MYR); Rahaim, John (CPC); Sanchez, Scott (CPC); Gibson, Lisa (CPC); Jain, Devyani (CPC); Rodgers, AnMarie; Sider, Dan (CPC); Starr, Aaron (CPC); Hui, Tom (DBI); Strawn, William (DBI); Jayin, Carolyn (DBI); Hayes-White, Joanne (FIR); Alves, Kelly (FIR); Nuru, Mohammed (DPW); Steinberg, David (DPW); Spitz, Jeremy (DPW); Blot, Jennifer (DPW); Thomas, John (DPW); Liu, Lena (DPW); Kelly, Jr, Harlan (PUC); Ellis, Juliet (PUC); Hood, Donna (PUC); Scarpulla, John (PUC); 'Whitmore, Christopher'; Rosenfield, Ben (CON); Rydstrom, Todd (CON); Stevenson, Peg (CON); Lediju, Tonia (CON); Kositsky, Jeff (HOM); Cohen, Emily (HOM); Sesay, Nadia (CII); GIVNER, JON (CAT); Somera, Alisa (BOS); Newman, Debra; Campbell, Severin (BUD); Clark, Ashley (BUD); 'Lori Campbell'; 'Kathleen Lowry'; 'Rasha Harvey'; Board of Supervisors, (BOS); Mchugh, Eileen (BOS)
Subject: 2017-2018 Civil Grand Jury Report - Hearing - Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing
Categories: 180701, 180702

Supervisors:

The Office of the Clerk of the Board has received required responses to the 2017-2018 Civil Grand Jury report entitled “**Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing**,” from the Office of the Controller and the Office of the Mayor. The Office of the Mayor submitted a consolidated response on behalf of the Mayor’s Office of Housing and Community Development, the Department of Building Inspection, the Planning Department, the Office of Community Investment and Infrastructure, the Fire Department, the Department of Homelessness and Supportive Housing, the Public Utilities Commission, and Public Works. Please find the following link to an informational memo from the Clerk of the Board of Supervisors, and direct links to the responses.

[Clerk of the Board Memo - September 5, 2018](#)

[Controller Response - August 17, 2018](#)

[Consolidated Response - Mayor - September 3, 2018](#)

Please note that the Board of Supervisors is required to respond by resolution to this Civil Grand Jury report. The Government Audit and Oversight Committee will consider the subject report, along with the responses, and will prepare the Board's official response by Resolution for the full Board's consideration at an upcoming hearing.

I invite you to review the entire matter on our [Legislative Research Center](#) by following the link below:

[Board of Supervisors File No. 180701](#)

Thank you,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102


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

DATE: September 5, 2018

TO: Members of the Board of Supervisors

FROM:  Angela Calvillo, Clerk of the Board

SUBJECT: 2017-2018 Civil Grand Jury report, entitled
"Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing"

We are in receipt of the following required responses to the San Francisco Civil Grand Jury report released July 5, 2018, entitled: "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing." Pursuant to California Penal Code, Sections 933 and 933.05, named City Departments shall respond to the report within 60 days of receipt, or no later than September 3, 2018.

For each finding the Department response shall:

- 1) agree with the finding; or
- 2) disagree with it, wholly or partially, and explain why.

As to each recommendation the Department shall report that:

- 1) the recommendation has been implemented, with a summary explanation; or
- 2) the recommendation has not been implemented but will be within a set timeframe as provided; or
- 3) the recommendation requires further analysis. The officer or agency head must define what additional study is needed. The Grand Jury expects a progress report within six months; or
- 4) the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

The Civil Grand Jury Report identified the following City Departments to submit responses (attached):

- Office of the Controller:
Received August 17, 2018 for
Recommendation No. R6.

- The Mayor's Office submitted a consolidated response for the following departments:
 - Office of the Mayor;
 - Mayor's Office of Housing and Community Development;
 - Department of Building Inspection;
 - Planning Department;
 - Office of Community Investment and Infrastructure;
 - Fire Department;
 - Department of Homelessness and Supportive Housing;
 - Public Utilities Commission; and
 - Public Works.

Received September 3, 2018, for Finding Nos. F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, F12, F13 and F14; and

Recommendation Nos. R1, R4, R5, R6, R7, R8, R9, R10, and R11.

These departmental responses are being provided for your information, as received, and may not conform to the parameters stated in California Penal Code, Section 933.05 et seq. The Government Audit and Oversight Committee will consider the subject report, along with the responses, and will prepare the Board's official response by Resolution for the full Board's consideration at an upcoming hearing.

C:

Honorable Teri L. Jackson, Presiding Judge
Kanishka Karunaratne Cheng, Mayor's Office
Mawuli Tugbenyoh, Mayor's Office
Andres Power, Mayor's Office
Marie Valdez, Mayor's Office
Kate Hartley, Director, Mayor's Office of Housing and
Community Development
Eugene Flannery, Mayor's Office of Housing and
Community Development
Amy Chan, Mayor's Office of Housing and Community
Development
John Rahaim, Director, Planning Department
Scott Sanchez, Planning Department
Lisa Gibson, Planning Department
Devyani Jain, Planning Department
AnMarie Rodgers, Planning Department
Dan Sider, Planning Department
Aaron Starr, Planning Department
Tom Hui, Director, Department of Building Inspection
William Strawn, Department of Building Inspection
Carolyn Jayin, Department of Building Inspection
Joanne Hayes-White, Chief, Fire Department
Kelly Alves, Fire Department
Mohammed Nuru, Director, Public Works
David Steinberg, Public Works
Jeremy Spitz, Public Works
Jennifer Blot, Public Works

John Thomas, Public Works
Lena Liu, Public Works
Harlan Kelly, General Manager, San Francisco Public
Utilities Commission
Juliet Ellis, San Francisco Public Utilities Commission
Donna Hood, San Francisco Public Utilities
Commission
John Scarpulla, San Francisco Public Utilities
Commission
Christopher Whitmore, San Francisco Public Utilities
Commission
Ben Rosenfield, Office of the Controller
Todd Rydstrom, Office of the Controller
Peg Stevenson, Office of the Controller
Tonia Lediju, Office of the Controller
Jeff Kositsky, Director, Department of Homelessness
and Supportive Housing
Emily Cohen, Department of Homelessness and
Supportive Housing
Nadia Sesay, Executive Director, Office of Community
Investment and Infrastructure
Jon Givner, Office of the City Attorney
Alisa Somera, Office of the Clerk of the Board
Debra Newman, Budget and Legislative Analyst
Severin Campbell, Budget and Legislative Analyst
Ashley Clark, Budget and Legislative Analyst
Lori Campbell, Foreperson, San Francisco Civil
Grand Jury



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 17, 2018

The Honorable Terri L. Jackson
Presiding Judge, Superior Court of California, County of San Francisco
400 McAllister Street, Room 008
San Francisco, CA 94102

Dear Judge Jackson:

Pursuant to Penal Code sections 933 and 933.05, the following is in reply to the 2017-18 San Francisco Civil Grand Jury reports, *Open Source Voting in San Francisco* and *Accessory Dwelling Units and Modular Housing*. We would like to thank the Civil Grand Jury for their work.

The Civil Grand Jury's reports provided important findings and recommendations on each of the topics reported on in this session. We will use this work to inform future audit and project planning and communication with leadership, stakeholders, and the public on these issues.

If you have any questions about this response, please contact me or Deputy Controller Todd Rydstrom at 415-554-7500.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "Ben Rosenfield", written over a horizontal line.

Ben Rosenfield
Controller

cc: Todd Rydstrom

Civil Grand Jury Report: Accessory Dwelling Units and Modular Housing

Required Responses to Recommendation 6:

Recommendation 6. Recommends the Department of Building Inspection work with the Department of the Controller to develop meaningful, outcome-based performance metrics on ADU permit approval duration, to be reported on OpenData starting January 2019. (F3, F4)

Response: The recommendation has not been, but will be, implemented in the future.

We will work with the Department of Building Inspection to develop one or more metrics on permitting of ADUs by January 2019. Depending on the data sources, content or related factors, we may publish such metrics in the Performance Scorecard section of the Controller's website, or in another accessible format, to be determined in consultation with stakeholders.

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Friday, July 06, 2018 2:06 PM
To: BOS-Supervisors
Cc: BOS-Legislative Aides; 'Calvillo, Angela (angela.calvillo@sfgov.org)'; Somera, Alisa (BOS); Power, Andres (MYR); Tavakoli, Shahde (MYR); Valdez, Marie (MYR); Hartley, Kate (MYR); Flannery, Eugene (MYR); Chan, Amy (MYR); Rahaim, John (CPC); Sanchez, Scott (CPC); Gibson, Lisa (CPC); Jain, Devyani (CPC); Rodgers, AnMarie; Sider, Dan (CPC); Starr, Aaron (CPC); Hui, Tom (DBI); Strawn, William (DBI); Jayin, Carolyn (DBI); Hayes-White, Joanne (FIR); Alves, Kelly (FIR); Nuru, Mohammed (DPW); Steinberg, David (DPW); Spitz, Jeremy (DPW); Blot, Jennifer (DPW); Loftus, Thomas (TIS); Liu, Lena (DPW); 'Hood, Donna (PUC)'; Kelly, Jr, Harlan (PUC); Ellis, Juliet (PUC); Scarpulla, John (PUC); 'Whitmore, Christopher'; Rosenfield, Ben (CON); Rydstrom, Todd (CON); Stevenson, Peg (CON); Lediju, Tonia (CON); Kositsky, Jeff (HOM); Cohen, Emily (HOM); Sesay, Nadia (CII); 'Givner, Jon (CAT)'; Newman, Debra; Campbell, Severin (BUD); Clark, Ashley (BUD); 'lori.j.campbell@comcast.net'; 'Kathleen Lowry'
Subject: PUBLIC RELEASE - 2017-2018 Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing
Categories: 180701

Supervisors:

Please find linked below the 2017-2018 Civil Grand Jury report, entitled: **Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing**, as well as a press release memo from the Civil Grand Jury and an informational memo from the Clerk of the Board.

[Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing](#)

[Civil Grand Jury Press Release - July 5, 2018](#)

[Clerk of the Board Memo - July 5, 2018](#)

I invite you to review the entire matter on our [Legislative Research Center](#) by following the link below:

[Board of Supervisors File No. 180701](#)

Thank you,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415) 554-4445

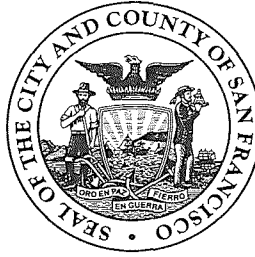


Click [here](#) to complete a Board of Supervisors Customer Service Satisfaction form.

The [Legislative Research Center](#) provides 24-hour access to Board of Supervisors legislation and archived matters since August 1998.

Disclosures: Personal information that is provided in communications to the Board of Supervisors is subject to disclosure under the California Public Records Act and the San Francisco Sunshine Ordinance. Personal information provided will not be redacted. Members of the public are not required to provide personal identifying information when they communicate with the Board of Supervisors and its committees. All written or oral communications that members of the public submit to the Clerk's Office regarding pending legislation or hearings will be made available to all members of the public for inspection and copying. The Clerk's Office does not

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

MEMORANDUM

Date: July 5, 2018
To: Honorable Members, Board of Supervisors
From: Angela Calvillo, Clerk of the Board
Subject: 2017-2018 CIVIL GRAND JURY REPORT - Mitigating the Housing Crisis:
Accessory Dwelling Units and Modular Housing

On July 5, 2018, the 2017-2018 Civil Grand Jury issued a press release, publicly announcing issuance of their report, entitled:

Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing

Pursuant to California Penal Code, Sections 933 and 933.05, the Board must:

1. Respond to the report within 90 days of receipt, or no later than October 3, 2018; and
2. For each finding the Department response shall:
 - agree with the finding; or
 - disagree with the finding, wholly or partially, and explain why.
3. For each recommendation the Department shall report that:
 - the recommendation has been implemented, with a summary of how it was implemented;
 - the recommendation has not been, but will be, implemented in the future, with a timeframe for implementation;
 - the recommendation requires further analysis, with an explanation of the scope of the analysis and timeframe of no more than six months from the date of release; or
 - the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

Pursuant to San Francisco Administrative Code, Section 2.10, in coordination with the Committee Chair, the Clerk will schedule a public hearing before the Government Audit and Oversight Committee to allow the Board the necessary time to review and formally respond to the findings and recommendations.

The Budget and Legislative Analyst will prepare a resolution, outlining the findings and recommendations for the Committee's consideration, to be heard at the same time as the hearing on the report. These matters are anticipated for hearing in Government Audit and Oversight during a regular committee meeting in September 2018.

If you have any questions, please contact John Carroll, Assistant Clerk, at (415) 554 4445.

Attachments: July 5, 2018 Press Release; and
Report: Mitigating the Housing Crisis:
Accessory Dwelling Units and Modular Housing

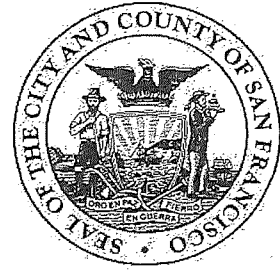
C:

Honorable Teri L. Jackson, Presiding Judge
Kate Hartley, Director, Mayor's Office of Housing
and Community Development
Eugene Flannery, Mayor's Office of Housing and
Community Development
Amy Chan, Mayor's Office of Housing and
Community Development
John Rahaim, Director, Planning Department
Scott Sanchez, Planning Department
Lisa Gibson, Planning Department
Devyani Jain, Planning Department
AnMarie Rodgers, Planning Department
Dan Sider, Planning Department
Aaron Starr, Planning Department
Tom Hui, Director, Department of Building
Inspection
William Strawn, Department of Building Inspection
Carolyn Jayin, Department of Building Inspection
Joanne Hayes-White, Chief, Fire Department
Kelly Alves, Fire Department
Mohammed Nuru, Director, Public Works
David Steinberg, Public Works
Jeremy Spitz, Public Works
Jennifer Blot, Public Works
John Thomas, Public Works
Lena Liu, Public Works
Harlan Kelly, General Manager, San Francisco
Public Utilities Commission

Juliet Ellis, San Francisco Public Utilities
Commission
Donna Hood, San Francisco Public Utilities
Commission
John Scarpulla, San Francisco Public Utilities
Commission
Christopher Whitmore, San Francisco Public
Utilities Commission
Ben Rosenfield, Office of the Controller
Todd Rydstrom, Office of the Controller
Peg Stevenson, Office of the Controller
Tonia Lediju, Office of the Controller
Jeff Kositsky, Director, Department of
Homelessness and Supportive Housing
Emily Cohen, Department of Homelessness and
Supportive Housing
Nadia Sesay, Executive Director, Office of
Community Investment and Infrastructure
Andres Power, Mayor's Office
Shahde Tavakoli, Mayor's Office
Marie Valdez, Mayor's Office
Jon Givner, Office of the City Attorney
Alisa Somera, Office of the Clerk of the Board
Debra Newman, Budget and Legislative Analyst
Severin Campbell, Budget and Legislative Analyst
Ashley Clark, Budget and Legislative Analyst
Lori Campbell, Foreperson, San Francisco Civil
Grand Jury

CIVIL GRAND JURY | 2017-2018

CITY AND COUNTY OF SAN FRANCISCO



FOR IMMEDIATE RELEASE

Contacts: Lori Campbell, Foreperson, (415) 672-8350; P Segal, Juror (415) 568-7212

PRESS RELEASE

SOLVING SAN FRANCISCO'S HOUSING CRISIS: ALTERNATIVES TO THE EXISTING HOUSING PARADIGM

SAN FRANCISCO (July 5, 2018) San Francisco's population soared in the early years of the new millennium, precipitating a housing crisis. The late Mayor Ed Lee pledged in 2014 to add 5,000 new units to the housing stock every year, for a total of 30,000 units by 2020. However, year after year, more than enough market rate units are built, but not enough below market rate or low-income ones. The 2017-2018 San Francisco Civil Grand Jury investigated what the city was doing to meet the shortfall of affordable housing, and found two specific programs in place, one for Accessory Dwelling Units (ADUs), and another exploring the feasibility of modular housing.

The ADU program encourages single-family homeowners and multi-family building owners to construct ADUs (Accessory Dwelling Units) on their properties, additions that were previously illegal. This program, launched in 2014, shows increasing interest every year, particularly from owners of multi-family buildings, since they can add more than one unit in empty ground floor spaces. ADUs are considered "naturally affordable" for renters, since they are typically small and they increase density without changing neighborhood character.

Another program pursues the use of modular construction, beginning with one project for homeless housing at 1068 Mission, and possibly another in Mission Bay. The city is slow to try modular construction, which experts say is both less expensive and much faster to build, as the building trades have opposed factory built housing to protect union workers and existing union contracts. Some unions have agreed to work on the first homeless housing project, as the need to get people off the streets is increasingly dire. The City is considering building a factory for modular housing in San Francisco, in conjunction with local construction trade unions.

For many years, San Francisco has relied on private developers and nonprofit partners to build new housing in the city. As the cost of land, materials, and labor have skyrocketed here, as fewer funds are available, and the labor pool shrinks, it becomes harder to build affordable below-market-rate housing. The need for alternatives to the existing housing construction paradigm motivated the jury to examine alternative City programs now in place, evaluate their efficiency, and recommend changes to the current process that offer benefits to all concerned.

The public may view the reports online at <http://civilgrandjury.sfgov.org/report.html>

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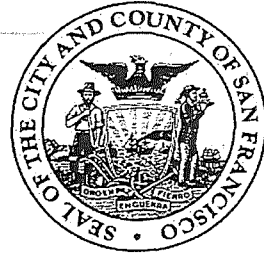
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SAN FRANCISCO

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CIVIL GRAND JURY | 2017-2018

CITY AND COUNTY OF SAN FRANCISCO



Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing



A San Francisco Accessory Dwelling Unit. Photo P Segal

CIVIL GRAND JURY | 2017-2018
CITY AND COUNTY OF SAN FRANCISCO



Jurors 2017-2018

Lori Campbell, Foreperson
Heather Dolan, Recording Secretary
John Sandoval, Corresponding Secretary
Richard Bogan
Paul Buxbaum
Charles Dworetz
William Hannan
Rasha Harvey
Hon. Alfred Knoll (ret.)
Douglas Lam
John Lee
Paul Pferdner
Charles Raznikov
Derek Schaible
P Segal
Grady Ward

SUMMARY

San Francisco has experienced an economic boom in the past decade, and a population surge (18% since 1990).¹ The City has been unable to keep up with housing demands and now faces a severe housing shortage, especially of below-market and middle class housing. Of the relatively few residential building permits that were issued during the past 30 years, virtually all of them were for market-rate housing. San Francisco needs below-market housing, but developers primarily build profitable market rate projects. The City needs to find other sources of affordable housing, and to do so must facilitate less expensive projects without compromising quality of life. The jury looked at two new alternative approaches to housing in San Francisco: the legalization of Accessory Dwelling Units (ADUs), and modular construction. These new approaches to housing in San Francisco, if guided correctly by city government, can improve our city's housing paradigm, where otherwise the city remains dependent on market forces or non-profits. ADUs add value to single-family homes and benefit communities, and modular housing particularly shows promise in helping San Francisco's homeless population.

Regarding ADUs, the laws concerning zoning and other permit considerations affecting ADUs have changed substantially since 2014, and ADU permit applications have been rising dramatically as a result. Regarding modular housing, this type of construction has not yet been used by the City for below-market housing, but an upcoming multi-story homeless housing project at 1068 Mission Street will be built using modular units. Another homeless housing project is in the works at Mission Bay Block 9, and modular construction is also under serious consideration for that project. These are the areas covered by this investigation.

BACKGROUND

The housing crisis in San Francisco is an ongoing, well-known problem. A host of complications has created a dire shortage in affordable housing as we approach the end of the decade. Although the City's population has surged over the last 25 years, from 723,496 in 1990 to 884,363 in 2017² current studies and polls show the population starting to level out, and even decline, probably due to high housing costs.³ If a city can't sustain working class housing, then not only police, firefighters, teachers, and nurses will be gone, but also a large number of service industry

¹ See footnote #2 immediately below.

² <https://sf.curbed.com/2018/3/26/17165370/san-francisco-population-2017-census-increase>

³ <http://www.bayareacouncil.org/economy/bacpoll-housing-frustration-spikes/>
<http://www.bayareacouncil.org/economy/bacpoll-more-people-looking-to-leave-bay-area-as-housing-traffic-problems-mount/>

workers. The need is clear for more below-market housing—without the displacement of existing homes and businesses.

In 2014, the City passed legislation⁴ that eased zoning restrictions, so homeowners could construct ADUs on their properties, an option that had previously been impossible without getting a zoning change; a path for legalization was also opened up for existing non-compliant ADUs.⁵ Concurrently, the Planning Department launched new programs encouraging homeowners to build ADUs and legalize existing ADUs. In 2017, the program expanded to allow more kinds of ADU construction.⁶ ADUs convert existing homeowner space, such as garages, basements, or attics, into separate apartments; in general, they must be built within the existing building envelope. As the program developed, owners of multi-unit properties began applying to add ADUs into their buildings, in areas such as ground-floor garages or common storage space. The jury investigated how effective the ADU program is in practice.

Modular housing is, by all reports, both less expensive and faster to build than traditional construction.⁷ Units are built in a factory while the foundation is laid, so cost and time are saved on the production line, and more time is saved from parallel work processes. Thus the technology can potentially address high construction costs and more quickly fill the housing gap. San Francisco is starting to calibrate how much time and money can actually be saved with modular construction, using the upcoming homeless housing project at 1068 Mission Street as a test case.

Modular construction has had a slow start in San Francisco. There are logistical, political, and civil challenges that potentially reduce the benefits of cost reduction and speed substantiated in other cities. However, as the need for new affordable housing continues to increase, the City needs to deal with these challenges and ascertain the magnitude of realizable benefits.

The city is surrounded on three sides by water, and few areas remain for new development without displacing something else. Alternative building approaches can work within these constraints. ADUs offer a practical option: they displace nothing, offer what City agencies call “naturally affordable” rental housing, and retain the historic qualities of neighborhoods. Modular housing provides an alternative, for larger projects, to the high cost of traditional construction in San Francisco. Despite these advantages, numerous factors stand in the way of integrating ADUs and modular construction into the housing fabric. This report examines the pros and cons of both alternatives to conventional development, and offers recommendations for implementation.

⁴ <https://sfdbi.org/adu>

⁵ <https://www.sfbos.org/ftp/uploadedfiles/bdsupvrs/ordinances14/o0043-14.pdf>

⁶ <https://sfgov.legistar.com/View.ashx?M=F&ID=5170884&GUID=F4CABC66-C96B-41FE-A2AA-321AB6DFF79A>

⁷ http://ternnercenter.berkeley.edu/uploads/offsite_construction.pdf

METHODOLOGY

The Civil Grand Jury researched what is being done outside San Francisco, and what experts in the field are saying about viable solutions to the housing shortage. Armed with an understanding of the possibilities in alternative housing solutions, we interviewed people in City government, think tanks, and other agencies dedicated to evaluating and implementing these options.

Members of the Civil Grand Jury interviewed personnel from the Planning Department, Department of Building Inspection (DBI), Mayor's Office of Housing and Community Development (MOHCD), Office of Community Investment and Infrastructure (OCII), and Department of Homelessness and Supportive Housing (DHS). In addition to government agencies, we interviewed experts from UC Berkeley's Turner Center for Housing Innovation, the San Francisco Bay Area Planning and Urban Research Association (SPUR), the San Francisco Tenants Union, the Building and Construction Trades Council (BCTC), and the San Francisco Apartment Association (SFAA).

Through these interviews, the Jury acquired and analyzed documents and data, most of which are not available online for reference. Members of the Jury visited the Navigation Center at 1950 Mission Street, researched relevant City codes, and U.S. Census data regarding population growth. We also consulted published documents from other sources.

DISCUSSION

Accessory Dwelling Units (ADUs): The Promise

ADUs allow for increasing population density without blocking sunlight or changing neighborhood character. These "infill" projects make use of available land, and because ADUs are generally small, they are potentially "naturally affordable".⁸ ADUs offer an alternative to expensive structures that command high rents—a simpler construction project that is, in theory, more affordable to rent.

ADUs should be a win-win for the City and for the homeowners who add them. For the City, ADUs relieve some of the housing production burden. For homeowners, they are a source of additional rental income, or a place to house family members or caregivers. They can be cozy places to retire to without leaving home. Having an extra unit also increases the value of the property.

The Planning Department provides an ADU handbook and video from 2014, explaining the application and permitting process, and demonstrating how an ADU can fit into a home.⁹ It states that adding a living space for family members was the most frequently cited reason for a

⁸ From interviews

⁹ See Appendix A for the location of these resources.

permit application. As the program has developed, however, the bulk of applications are currently for units in multi-family buildings, primarily using unused ground floor space. The Planning Department recently released a list of over 25,000 lots in the City where at least one ADU is permitted, demonstrating the potential. (see Appendix A). The Planning Department is also working on updating their outreach material, but as of this report, the handbook and video provide the most up to date information. The department has also begun outreach at street fairs to further publicize the ADU program and to encourage permit applications.

To offset restrictions on where ADUs can be built, the Planning Department initiated a waiver program, in 2016, based on legislation introduced by the Board of Supervisors.¹⁰ Waivers allow viable alternatives to code, or in some cases override code requirements, including required amounts of open space, light exposure, mandatory parking spaces, or impact on density. Code requirements were set in times when conditions were different, such as parking space requirements that are no longer as important, given the growth of public transit and alternative transportation.¹¹

During the launch of the ADU program, the Planning Department issued permits in only two neighborhoods, North Beach and the Castro, and the program got off to a slow start with fewer than 6 applications. In 2016, the city opened permitting to all neighborhoods, and the number of applications increased substantially: 43 in 2015, 384 in 2016, and by the third quarter of 2017, there were 531 applications for a total of 1023 applied-for units,¹² as multi-family buildings were now allowed to add multiple ADUs.

Until 2017, the Planning Department permitted only ADU additions that fit within the envelope of the existing building. A change in policy allowed for ADU construction in other pre-existing structures on the property, separate from the original building, as long as certain requirements are met.¹³ This program expansion coincided with a substantial increase in permit applications.

ADUs, The Reality

Like everything in San Francisco, building an ADU is expensive, costing anywhere from \$50,000 to \$200,000 or more.¹⁴ ADUs are described as naturally affordable for renters, given the size of an ADU is generally that of a studio apartment. With these relatively low rents, it may take a homeowner a significant period of time to recoup the costs of building. City officials and other experts identified several factors that increase costs and discourage homeowners from

¹⁰ <https://sfgov.legistar.com/View.ashx?M=F&ID=4571286&GUID=3E206909-6E9C-45CF-8A03-7CC4B44A0CBB>

¹¹ From interviews

¹² Document provided by Planning Dept.

¹³ See Appendix D for requirements.

¹⁴ Based on 172 permit applications that were approved before March 2018, provided by DBI

undertaking an ADU project. These include the time it takes to get permits and the costs of multiple permits.

Applying for an ADU permit, as it does for any new residential construction, requires the applicant to pay an architect to draw up plans, and that expenditure does not guarantee permit approval. During the permit process, five City agencies evaluate the design, building and safety code compliance, structural integrity, utility connections, and neighborhood impact. Scrupulous code compliance, a must in earthquake country, also slows the process.

The ADU approval process is slower than the Planning Department claims,¹⁵ although it is getting better. The application must go through many departments, taking what the City estimates as six to nine months. The jury examined DBI records of ADU permits approved during 2015-2017; across 172 permit applications, the average processing time from start to approval was 364 calendar days. Within this time period, the Planning Department spent a median of 199 calendar days reviewing permits.¹⁶

The Department of Building Inspection has advanced a pre-application option, where interested parties meet with DBI and Fire Department inspectors before beginning the application process, to determine if a location is suitable for an ADU, and what requirements may be waived. DBI has initiated several internal procedures to speed up permit approval, which is highly commendable, including better tracking of permit applications. Once these new processes are fully in place, the department now claims that 92% of ADU applications can be approved over the counter, particularly when presented by an architect or contractor.¹⁷

In September 2017, shortly before his death, Mayor Ed Lee issued a directive to streamline and expedite the residential permitting process. The Planning Department responded on December 1st, 2017,¹⁸ proposing to:

- 1) review permits jointly with the Department of Building Inspection, rather than separately;
- 2) join the pre-application reviews currently conducted jointly by DBI and Fire;
- 3) establish an ADU liaison in all responsible agencies;
- 4) develop capability for counter review service for Planning, similar to DBI; and

¹⁵http://default.sfplanning.org/plans-and-programs/planning-for-the-city/accessory-dwelling-units/2015_ADU_Handbook_web.pdf

¹⁶ See Appendix E for summary of results.

¹⁷ From interviews

¹⁸http://default.sfplanning.org/administration/communications/ExecutiveDirective17-02_ProcessImprovementsPlan.pdf

- 5) develop a process with the Rent Board to speed up searches of eviction history for the property, the last major hurdle before permit approval.

Parallel processing of permits among departments has speeded up the approval time to some degree. Planning reported to us that they expect additional internal streamlining to cut their ADU review process to roughly sixty days.

A new City building is under construction at Mission and South Van Ness, where DBI, Planning, and DPW will reside. This will create the opportunity for a one-stop permit counter, relieving applicants from having to travel to various City buildings to obtain their ADU permits. Potentially, an inter-agency office can operate in this building, where point-persons from all the agencies involved in ADU permitting can coordinate their reviews, expedite permits, and improve communications. Interdepartmental meetings have discussed improvements to the permit process, but a one-stop counter and regular meetings are feasible only when these agencies are in the same building. This new building will not be completed for several years.

Some of the provisions in the Planning Department's response could be done before the building's completion. DBI and the Fire Department now consult prior to a formal permit application—the optional pre-application review—and Planning likely could join this review process as it currently exists. Doing so would be a promising start to the agency's plans for a quicker process.

Fees

Fees charged for permits, at approximately 9% of projected building cost, are high enough to be a barrier for single family homeowners.¹⁹ We understand that city building codes seem to call for permit fees to cover the costs of administering permits and inspections. ADU applications more than doubled each year from 2015 to 2017; this is a promising trend, but managing the increased demand necessitated more staff, which requires additional expenditure. Permit applications were submitted for over 1,000 ADUs in 2017, representing 20% of the late Mayor Lee's call for 5,000 new housing units a year.²⁰

Fees during the permitting process cover building inspections and plan reviews. Additionally, there are City fees related to impact on the school district, street tree requirements which involve reviewing plans from the city to identify locations of street utilities, and other infrastructure considerations.

According to the Turner Center,²¹ lower ADU permit fees appear to spur construction of ADUs, with Portland, Seattle, and Vancouver, BC cited as specific examples. In San Francisco, the costs

¹⁹ From interviews.

²⁰ <https://sfmayor.org/housing-for-residents>

²¹ http://turnercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf

of construction are high, compared with national averages.²² DBI records show that approved ADU projects range anywhere from an estimated cost of \$50,000 to \$200,000 per unit. In the jury's analysis of 172 ADU permit records²³ from DBI, permit fees represent about 9% of the projected construction cost of an added ADU. Permit fees could therefore add nearly \$20K to upfront costs, potentially deterring property owners from pursuing a permit that may or may not be approved. The Turner Center notes that the average cost of building an ADU is \$150,000 nationally, but given the higher cost of living in SF, agrees that a \$200,000 average is likely accurate for San Francisco conditions.

If a multi-unit building is undergoing seismic retrofit, either mandated or voluntary, the owner can bypass statutory limitations on the number of ADUs that can be added, and multiple ADUs are consolidated under one permit, rather than requiring a permit for each unit; this gives landlords an advantage over single-family homeowners. Perhaps not incidentally, the majority of ADU applications that we examined were for units in multi-family buildings.²⁴

Given that individual homeowners are building voluntarily and at their own expense, and their efforts potentially contribute to the city's housing supply, it seems counterproductive to us to burden them with the additional obligation to finance a city agency's work—particularly in combination with a long and complicated process of permitting. We would like to see San Francisco relieve homeowners' ADU permit expenses and subsidize related building departmental functions from the general fund. This relatively small investment could go a long way to encouraging more ADU construction, which would contribute meaningfully to the housing inventory.

Costs and Financing

Financing is also an issue, as many homeowners, saddled with high mortgage payments and property taxes, may not have the resources to invest in construction with no short-term profit. There may be a longer term profit when the original cost has finally been recouped through rental income, or a medium term profit if the house is sold, but combined with the disincentive of an immediate property tax increase, the prospect of financing such construction can be daunting for any homeowner.

Financing aside, construction costs are a major barrier for single family homeowners. Labor is expensive in San Francisco for many reasons, including the cost of living for workers. The supply of local labor is shrinking in a market with rising demand, which raises construction costs further.²⁵ ²⁶ Additionally, the North Bay fires have stretched the Bay Area's construction and

²² <https://www.bizjournals.com/sanfrancisco/news/2018/01/24/sf-construction-costs-2nd-highest-housing-crisis.html>

²³ From copies of official documents provided by DBI

²⁴ See Appendix F

²⁵ <https://turnercenter.berkeley.edu/construction-costs-series>

trade unions very thin.²⁷ ²⁸ It is axiomatic that where demand is high and supply is low, costs increase.

Most of the labor for ADU construction is non-union.²⁹ Representatives of the building trades indicate that the trade unions are generally not involved with small ADU construction, as large unions typically stick to large projects with greater emphasis on union labor. The non-union labor pool is more flexible, and it might be possible to supplement it with temporarily less expensive, but well supervised, trainees.

To conclude our discussion of ADUs, we believe that it might be possible to reduce costs for some homeowners if the City developed architectural templates for some single family homes. For example, the developer of most of the homes in the Sunset, Henry Doelger, used five basic architectural plans. If the City offered five standard ADU plans to fit into Sunset District homes, this could speed up the process of approval, add available units more rapidly, and save homeowners some or all of the expense of architectural plans.

Modular Construction - The Potential

Construction labor is growing more scarce,³⁰ due in no small part to the high cost of living in San Francisco and the surrounding areas. When construction workers can't afford to live here or within reasonable commute distance, they find work elsewhere. At the same time, the cost of construction for both materials and labor continues to rise. Under these conditions, another alternative to traditional multi-unit residential construction methods offers the potential of noticeably increased efficiency. This alternative is modular housing construction—prefabricated units assembled in factories, delivered as freight, and assembled on site. These housing units have external utility connections already in place when delivered, and are stacked by crane on top of a specially-constructed concrete pad. When all the units are connected, the building's outer skin and roof are added.

Industry experts and local authorities agree that modular construction methods are expected to save both time and money compared to traditional methods. The Mayor's Office of Housing and Community Development (MOHCD) estimates that, in San Francisco, modular construction would reduce building costs by 7-15%, and would reduce time of construction by 10-15%. Estimates for other areas of the country estimate cost savings of 20-30% and time savings of 30-50%, depending on conditions. The Turner Center for Housing Innovation and other independent

²⁶ From interviews

²⁷ From interviews

²⁸ <http://www.sacbee.com/news/local/article179433551.html>

²⁹ From interviews

³⁰ <https://www.mercurynews.com/2018/02/25/hidden-cost-of-housing-how-a-shortage-of-construction-workers-is-making-our-crisis-worse/>

experts also predict time savings of up to 50%.³¹ There are several factors that go into these efficiencies:

- Production line efficiency—building identical or similar units one after another in a factory setting allows for more efficient staging of materials and more efficient use of workers' time. These efficiencies save both time and expense.
- Parallel work—while the housing units are being built in a factory, the specially-constructed on-site concrete foundation pad can be built concurrently, which saves time.
- San Francisco as a special case—logistical, labor, and political issues affect how much time and expense can actually be saved in City-sponsored residential projects that use modular construction. Those issues are detailed in a later section of this report.

Modular construction of residential units is an industry that has been growing and maturing for more than 20 years. Construction techniques for modular units and for the underlying concrete pad have become more sophisticated and precise over time, so that the units fit better on the pad, and fit together without gaps or leaks. Research and testing to improve processes and materials are constants in the industry.

San Francisco's urgent need for housing and the City's budget constraints mean that modular construction methods deserve more serious consideration for City-sponsored, below-market residential projects than they have received. The City needs to look beyond and creatively challenge current practices in housing construction.

The first step is now being taken: MOHCD is financing a residential project for homeless people located at 1068 Mission Street, with up to 250 housing units, and they have decided to build it with modular housing units.³² It should be breaking ground soon, and is planned to be completed in 2021. The units will be built by a company called Factory OS, located in Vallejo. The Carpenters Union has signed an exclusive labor contract with Factory OS to build modular units at that location.

The land for this project was acquired from the federal government in a deal which puts time pressure on the project.³³ Even more pressure, perhaps, is on MOHCD to make this modular project work within the expected time and cost parameters. This is the first City-sponsored modular residential project and it will be the crucible that builds management experience and skill for future modular projects. The concern expressed by MOHCD is that this first project may by itself be used to gauge the viability of modular construction techniques. City authorities have told us that it could take up to five modular projects before they can be sure whether modular

³¹http://turnercenter.berkeley.edu/uploads/A.Stein_PR_Disruptive_Development_-_Modular_Manufacturing_in_Multifamily_Housing.pdf

³² From interview

³³ Based on interviews: the project must be completed and occupied with 3 years of the start date or the current property deal will be rescinded. What deal might take its place if the project fails to meet that timeline is unknown.

construction methods should be adopted by them generally. Fortunately another, larger homeless residential project is being planned by the Office of Community Investment and Infrastructure (OCII) for Mission Bay Block 9, and they are strongly considering using modular construction for that project. We hope that modular construction methods for city-supported below-market housing will not be abandoned prematurely, before they have been adequately tested by experience.

There is further potential to the 1068 Mission homeless residential project that would work to reduce the housing shortage and to benefit the homeless themselves. Due to the agreement to obtain this Federal land, the project will not allow any retail on the ground floor. This area could provide space for training for both traditional building skills and new modular construction practices. Also, being trained in the building trades would provide a new path forward for the formerly homeless, and lessen the labor shortage.

Modular Construction - The Challenge

Over the course of our interviews, we learned of a number of logistical challenges associated with modular construction that don't apply to traditional building methods. Some of these are unique to San Francisco, some are built-in parts of the process.

- Transportation—the size of each unit is substantial, and requires a large transport vehicle to move it from the factory to the job site. In addition to traffic issues along the way, this requires more unloading space than normal at the job site.
- Unit storage—to keep work flowing, a number of finished units will have to be stored at the job site before being installed. This requires more storage space than normal at the job site.
- Larger crane—lifting the large units to their place in the building requires a larger crane than normal, and this takes up more than the usual space required for a crane.
- Narrow streets—many San Francisco streets tend to be narrower than other cities. This means that wide vehicle loads and larger unloading areas will have a larger negative impact on traffic than in other cities, and a larger impact than other construction methods in San Francisco.
- Lack of open space—San Francisco does not have a lot of open space in many areas of the city. This means that it can be more difficult to fit into a building site the extra space required for unit storage and a larger crane.
- Vulnerability to weather—unlike traditional construction, modular units are installed before the building's exterior walls or roof, and finished unit interiors can be damaged by rain or excessive moisture. Units are delivered covered in protective wrappings, but at least some of those wrappings must be removed for installation. Manufacturers need to devise means to address this challenge.

Clearly, based on these logistical issues, construction space for a modular project will need to be larger than normal, and extra attention will need to be given to its impact on sidewalks, parking, and traffic. Modular construction may, therefore, not be feasible in some areas of the city.

There are also concerns about inspection of the modular units. Inspection of the interiors of units as they are built must happen at the factory, and currently these inspections are done by state inspectors following state building codes. Construction site inspections, in contrast, are conducted by City officials applying San Francisco building codes, which are in some cases more rigorous than state codes. Since modular unit interiors are finished when they arrive at the construction site, City inspectors can't inspect the plumbing, wiring, and construction integrity. This is a cause for some concern if San Francisco inspectors are not present at the factory. For modular units built outside the city, it may be necessary for City inspectors to travel to the factory to inspect for compliance with San Francisco building codes as the units are built. If this is not done, some San Francisco buildings would end up built to less strict codes than others.

San Francisco's construction trade unions have their own problems with modular construction projects. Some of these unions (plumbing, sheet metal workers, electricians)³⁴ have existing contracts that forbid them from working with components that were not manufactured with the participation of their union members, and that description would currently include all modular housing units. When those unions can't participate in a project, it becomes a non-union project, and that keeps the other unions from working there as well. Other trade unions that don't have that specific clause in their contracts have agreed to waive that restriction and work on a non-union site only for City-sponsored homeless residential projects, such as the one at 1068 Mission Street, and the one at Mission Bay Block 9, should that one be built with modular construction.

One proposal that would resolve both the problem of local building codes and inspections, and the trade union issues, would be to establish a modular residential unit factory, staffed with union labor, here in San Francisco. Units built in such a factory would be subject to local building codes and would have City inspections. The units would be built within the parameters of existing union contracts, and City-sponsored modular projects would be able to proceed as fully unionized work sites. This may be the only way forward for modular construction of City-sponsored residential projects in San Francisco. Private contractors may choose to build their modular projects using non-union labor, but the City does not have that option for its projects.

Establishing a modular unit factory in the city has other advantages:

- Such a factory would increase middle-class manufacturing jobs in San Francisco.
- A factory employing union labor ensures best practices, good construction quality, and fair wages.
- A factory setting can serve as a training ground for trade union apprentices.

³⁴ From interviews

- A modular factory would help retain building trade expertise within the city, and build a stronger labor force.
- Producing modular units in San Francisco would reduce transportation costs from the factory to the building site in the city.

The City and the trade unions are discussing the possibility of such a factory, and have already identified a potential site. There is much to consider, including a possible new paradigm of construction labor. Factory work is very different from on-site construction, and modular construction could end up creating a new factory-based trade union.³⁵ Most current trade union skills could translate to a factory setting, but someone who has been trained and has worked only in a factory will not have the same skills as a current trade union journeyman. Unions, developers, and the City will have to negotiate these changes.

CONCLUSION

It clearly doesn't work to depend on developers to provide housing for all San Francisco residents, as below-market and middle class housing are left further and further behind. All construction methods and formats face the escalating costs of construction in the city. A city that has always been a nexus of innovation must actively pursue and implement alternatives to traditional housing construction. We have identified two kinds of alternative building methods that can help to meet the City's housing needs: ADUs in single family homes, and modular construction for multi-unit residential structures .

For ADUs, we wholeheartedly recommend accelerating the permitting process and lowering the fees for building them. Other cities have shown that lowering fees increase homeowners' willingness to apply for permits. This approach would require funding the costs to City departments of ADU permit processing and inspections from other sources, such as the general fund. We also envision creating a job training program within the first homeless housing project to teach homeless workers preparatory skills for construction work.

Modular construction is another alternative worth pursuing more actively than it has been in San Francisco; considered strictly as a construction method, it is both faster and cheaper than conventional construction. It may take as many as five projects using this alternative building process to get a real understanding of the benefits and challenges, specifically in San Francisco. There is only one project currently in the works, and possibly two, if the OCII project commits to modular construction for Mission Bay Block 9. We will need to do more of these.

The City has changed dramatically in the 21st century, and that calls for new ways of addressing the housing needs of a growing population. ADUs offer the possibility of increased density, without changing the look and feel of our neighborhoods, a process pleasing to both proponents of greater density and advocates of protecting neighborhood character. As we face the challenges

³⁵ From interviews.

of getting our homeless citizens off the streets and of housing our middle and working classes, cheaper and faster methods are vitally important. Modular construction appears to be one solution, and we will see how these first attempts meet those goals and satisfy those standards. The needs are clear, and these two alternatives offer new ways to deal with a new city.

FINDINGS

- F1. The City has produced more than the required market rate housing to satisfy market demand using traditional building practices, but not nearly enough below market rate housing. Taking better advantage of alternative construction methods can increase the City's ability to narrow the below-market housing gap. (No recommendation)
- F2. Construction of ADUs can add a meaningful number of moderately priced rental housing units in San Francisco, with no significant burden on City finances. Therefore, encouraging ADU development is of value to San Francisco. (R1, R2, R3, R4, R9, R10)
- F3. The City has provided a program to encourage ADU construction, and as a result, the number of ADU permit applications has been growing dramatically. Further improvements to this program will help ADU construction to continue on a successful trajectory. (R6)
- F4. The length of the permitting process for ADUs is a major factor in limiting the speed of bringing ADUs to market to help meet the housing shortage. Shortening the ADU permitting process both expedites and encourages ADU construction. (R4, R6)
- F5. The Planning Department expects to establish a one-stop permit center in its new building, which would bring together all agencies involved in the permit process, and thereby expedite approvals, but the new building won't be ready until 2020; therefore, interim measures to expedite ADU approvals are needed. (R4)
- F6. The City's ADU program acknowledges the value to the City of increasing ADU construction. Homeowners who construct ADUs do so voluntarily and at their own expense. The additional burden of heavy permit fees is counterproductive to the City's goal of increasing the rate of ADU construction, in that it represents an additional barrier to building ADUs for single family homeowners, and therefore likely reduces the number of applications. (R2, R3)
- F7. Cities that lower permitting fees for ADUs, as Portland, Seattle and Vancouver, BC have done, see an increase in the number of permit applications by single family homeowners; if San Francisco reduces permitting fees for that type of ADU permit applications, they are likely to increase. (R2, R3)
- F8. The City's Building and related construction codes place limitations on what can be built, inhibiting some homeowners from building ADUs. Allowing exceptions from these

requirements, when it can be done without compromising safety, helps homeowners add ADUs to their homes. (R1, R9)

- F9. The Planning Department's current public outreach program is a good start, but the material needs to be updated, and it is not reaching enough people. Better outreach directed to more homeowners will likely lead to an increase in applications for construction of ADUs in single family homes. (R10)
- F10. Spaces at the 1068 Mission and possibly the Mission Bay Block 9 homeless housing projects may be suitable for construction trade "soft skills" training—preparatory training for construction work. This could be facilitated by DSHS as part of the CityBuild program. The end result could be a strengthened labor force. (R5)
- F11. When the City is building housing using factory-constructed modules from outside the City, the factory construction of those modules is subject to state building codes but not local building codes. If local building codes are not taken into account at the factory, there can be code compliance problems at the project site. (R8)
- F12. Some current trade union contracts prevent the City from using modular construction for City-sponsored below market housing projects, and further slow progress on below market housing. (R11)
- F13. It may take as many as five residential modular construction projects for the City to accurately assess this alternate construction method, including an assessment of cost and time benefits. In addition to the 1068 Mission project, it will be helpful to this assessment if the pending homeless housing project at Mission Bay Block 9 is built using modular construction methods. (R7)
- F14. The building trade unions are open to talks with the City to establish a factory for modular unit construction in San Francisco, staffed by union workers, and committed to best practices, and this is a promising start to trade union acceptance of modular construction technology. (R11)

RECOMMENDATIONS

The San Francisco Civil Grand Jury:

- R1. Recommends the Planning Department and the Department of Building Inspection jointly review their codes and submit joint recommendations to the Board of Supervisors no later than April 1, 2019 for code amendments designed to encourage homeowners to build more ADUs. (F2, F8)

- R2. Recommends the Board of Supervisors amend existing City codes and ordinances, before June 30, 2019, to waive or reduce ADU permit fees, with the understanding that reduced departmental revenues would be made up from the City's general fund. (F2, F6, F7)
- R3. Recommends the Board of Supervisors structure fees separately for ADUs in single family residences and ADUs in multi-unit buildings, specifically designed to ease the permitting costs for single family homeowners. (F2, F6, F7)
- R4. Recommends the five agencies involved with ADU permitting establish a shared meeting space by January 1, 2019, and not wait for the completion of the new shared agency building. This space would be used by point persons from each of the five permitting agencies to expedite the ADU permit approval process. (F2, F4, F5)
- R5. Recommends that MOHCD and OCII require the managers of 1068 Mission Street and possibly Mission Bay Block 9 to reserve ground floor space for use in training construction workers, including training in ADU construction methods and modular unit construction work. (F10)
- R6. Recommends the Department of Building Inspection work with the Department of the Controller to develop meaningful, outcome-based performance metrics on ADU permit approval duration, to be reported on OpenData starting January 2019. (F3, F4)
- R7. Recommends the Office of Community Investment and Infrastructure make its best effort to encourage the developer to use modular construction for the Mission Bay Block 9 homeless housing project. (F13)
- R8. Recommends the Department of Building Inspection regularly inspect modular factories outside the City, if those factories are building housing for the City, to ensure construction is built to comply with City codes. (F11)
- R9. Recommends the Planning Department waive parking space requirements for ADUs built in single-family residences. (F2, F8)
- R10. Recommends the Planning Department expand its public outreach on ADUs to increase homeowner awareness of ADU opportunities. (F2, F9)
- R11. Recommends the Mayor support the establishment of a union-staffed modular housing factory in San Francisco. (F12, F14)

REQUIRED RESPONSES

Pursuant to Penal Code section 933. The San Francisco Civil Grand Jury requests responses as follows:

From the following individuals:

Director, Mayor's Office of Housing and Community Development (MOHCD)
(F10, F11, F12, F13, F14)
(R5, R8)

Director, Planning (City Planning) Department
(F2, F4, F5, F6, F7, F8, F9)
(R1, R4, R9, R10)

Director, Department of Building Inspection
(F2, F3, F4, F5, F6, F7, F8, F11)
(R1, R4, R6, R8)

Chief, Fire Department
(F2, F4, F5)
(R4)

Director, Department of Public Works
(F2, F4, F5)
(R4)

General Manager, Public Utilities Commission
(F2, F4, F5)
(R4)

Controller, Office of the Controller
(No Findings to Respond To)
(R6)

Director, Department of Homelessness and Supportive Housing
(F10)
(R5)

Director, Office of Community Investment and Infrastructure
(F10, F11, F13)
(R5, R7, R8)

San Francisco Board of Supervisors
(F2, F6, F7)
(R2, R3)

Office of the Mayor
(F12, F14)
(R11)

GLOSSARY

ADUs: Accessory Dwelling Units. Living spaces added to existing residential properties, sometimes referred to as “in-law” units.

DBI: Department of Building Inspection.

DPW: Department of Public Works.

DHSH: Department of Homelessness and Supportive Housing.

Modular Units: Prefabricated housing units assembled at a factory for delivery to a construction site.

MOHCD: Mayor’s Office of Housing and Community Development.

OCII: Office of Community Investment and Infrastructure. Successor to the San Francisco Redevelopment Agency.

SFPUC: San Francisco Public Utilities Commission.

SPUR: A think tank formerly known as the San Francisco Bay Area Planning and Research Association.

Terner Center for Housing Innovation: A think tank affiliated with UC Berkeley.

APPENDICES

Appendix A: City lots where ADU additions are currently allowed:

https://data.sfgov.org/Housing-and-Buildings/Accessory-Dwelling-Units-ADU-/9ci8-cnht?category=Housing-and-Buildings&view_name=Accessory-Dwelling-Units-ADU-

Appendix B: (https://data.sfgov.org/Housing-and-Buildings/Accessory-Dwelling-Units-ADU-/9ci8-cnht?category=Housing-and-Buildings&view_name=Accessory-Dwelling-Units-ADU-

Appendix C: The video (<https://www.youtube.com/watch?v=y9ymJxOBSHI&feature=youtu.be>) shows how a unit is installed and the process of application to build one

Appendix D: Until 2017, the city only allowed ADUs within the envelope of the existing building. Starting in 2017, the city allowed ADUs in other existing structures on the property, such as free-standing garages. Additionally, if a property has a large porch extending over a yard,

the owner can extend an ADU to the dimensions of the porch.³⁶ Additionally, in 2017, Ordinance 162-17 was passed, easing ADU restrictions regarding the number of ADUs that can be built in a multi-unit building and exemptions to Costa Hawkins.³⁷

Appendix E: Review of 172 ADU permit records for duration of permit process per department.

	Intake to Planning GAP	Days in Planning	Planning to DBI GAP	Days In DBI	Days After Planning	Total Days	Total "Gap" Days
Highest Value	169	747	31	376	423	858	170
2nd Highest Value	96	479	23	316	415	747	97
Lowest Value	0	0	0	0	1	24	0
2nd Lowest Value	0	0	0	0	21	33	0
Average	9.14	199.15	1.77	79.63	156.33	364.61	10.89
Median	2	175.5	1	52.5	140	348.5	4

Appendix F: Review of 172 ADU permit applications for number of units built compared to number of pre-existing units.

³⁶<https://sfgov.legistar.com/View.ashx?M=F&ID=5170884&GUID=F4CABC66-C96B-41FE-A2AA-321AB6DFF79A>

³⁷ <https://sfbos.org/sites/default/files/o0162-17.pdf>

Permit Application distribution by # of units of original building

Data source: June 2015 - Dec 2017 from DBI

COUNT # OF EXISTING UNITS	ADUs added per application						
	0	1	2	3	4	5	Grand 6 Total
0		1	1				2
1	1	16					17
2		8	1				9
3		5	3				8
4		3	1				4
5		6	1				7
6		24	9	8	3		44
7		2	2	1			5
8		4	1	1			6
9		7	3	3			13
10		1	1				2
11		1	1				2
12		6	8	6		2	22
13		1					1
14		1	1		1		3
15		1		1		2	4
16		2					2

17			1			1		2
18						1	1	2
19			1					1
20			1					1
21							1	1
23			1					1
24		2						2
27				2	1			3
28				1				1
29			1					1
30					2			2
34			1					1
42			1					1
49			1					1
55		1						1
Grand Total	1	92	41	23	7	4	4	172

Appendix G: Rules for Calculation of Permit Fees in San Francisco City Codes

The San Francisco Building Code provides for fees in sections 107A and 110A, and spells out fee calculations in enormous detail in Table 1A-A, section 110A. Parenthetically, these sections note that other departments may also charge fees, including Public Works, Planning, Fire, and other agencies. The San Francisco Planning Code states in section 350(a) that the Planning Department "...shall charge fees," and that "...the Board of Supervisors may modify the fees by ordinance at any time."

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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):

[] Clerk of the Board

Subject:

[] Hearing - Civil Grand Jury Report - Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing

The text is listed below or attached:

[] Hearing on the recently-published 2017-2018 Civil Grand Jury report, entitled "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing."

Signature of Sponsoring Supervisor: _____

Alisa Gomez

For Clerk's Use Only: