



SAN FRANCISCO PLANNING DEPARTMENT

Executive Summary

PLANNING CODE TEXT AMENDMENTS INCLUSIONARY AFFORDABLE HOUSING PROGRAM

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Project Name: **Inclusionary Affordable Housing Program
Section 415 Amendments**
Case Number: **2017-001061PCA**

Planning
Information:
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Initiated by: **Supervisors Kim and Peskin**, Introduced December 13, 2016
Version 2, Introduced February 28, 2017
Inclusionary Affordable Housing Fee and Requirements
[Board File No. 161351]

Initiated by: **Supervisors Safai, Breed, and Tang** Introduced February 28, 2017
Inclusionary Affordable Housing Fee and Dwelling Unit Mix Requirements
[Board File No. 170208]

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I. BACKGROUND

Inclusionary Housing Program

The Inclusionary Affordable Housing Program is one of the City's key tools for increasing the availability of affordable housing dedicated to low and moderate income San Franciscans, and has resulted in more than 4,600 units of permanently affordable housing since its adoption in 2002. **Inclusionary housing is distinguished from other affordable housing programs in that it provides new affordable units without the use of public subsidies.** For this reason, the program can address the growing needs of low, moderate, and middle income households that cannot be served by other common affordable housing funding sources, such as the federal Low Income Housing Tax Credit program.

Proposition C and the Controller's Economic Feasibility Study

In March 2016, the Board of Supervisors unanimously adopted a resolution¹ declaring that it shall be City policy to maximize the economically feasible percentage of inclusionary affordable housing in market rate housing development. In June, as housing prices rose drastically, San Francisco voters approved a Charter Amendment (Proposition C), which restored the City's ability to adjust affordable housing requirements for new development by ordinance.

The passage of the Proposition C then triggered the provisions of the so-called "trailing ordinance" [BF 160255, Ord. 76-16²], adopted by the Board of Supervisors in May 2016, which amended the Planning and Administrative Codes to 1) temporarily increase the Inclusionary Affordable Housing requirements, pending further action by the Board of Supervisors; 2) require an Economic Feasibility Study by the Office of the Controller; and 3) establish an Inclusionary Housing Technical Advisory Committee (TAC) to advise the Controller.

The TAC convened from July, 2016 to February, 2017 and Controller provided a set of preliminary recommendations³ to the Board of Supervisors on September 13, 2016 and issued a set of final recommendations on February 13, 2017⁴. The City's Chief Economist presented the Controller's recommendations to the Planning Commission on February 23, 2017.

¹ Establishing City Policy Maximizing a Feasible Inclusionary Affordable Housing Requirement [Board File No 160166, Reso. No. 79-16], approved March 11, 2016. Available at:

<https://sfgov.legistar.com/View.ashx?M=F&ID=4302571&GUID=8243D8E2-2321-4832-A31B-C47B52F71DB2>

² The ordinance titled, "Inclusionary Affordable Housing Fee and Requirements; Preparation of Economic Feasibility Report; Establishing Inclusionary Housing Technical Advisory Committee," was considered by the Planning Commission on March 31, 2016. The Commission's recommendations are available here:

<https://sfgov.legistar.com/View.ashx?M=F&ID=4387468&GUID=8D639936-88D9-44E0-B7C4-F61E3E1568CF>

³ Office of the Controller. "Inclusionary Housing Working Group: Preliminary Report September 2016". September 13, 2016:

<http://sfcontroller.org/sites/default/files/Preliminary%20Report%20September%202016.pdf>

⁴ Office of the Controller. "Inclusionary Housing Working Group: Final Report," published February, 13 2017, with the consulting team of Blue Sky Consulting Group, Century Urban LLC, and Street Level

Pending Amendments to the Inclusionary Housing Program

On December 13, 2016, Supervisor Kim and Supervisor Peskin introduced “Inclusionary Affordable Housing Fee and Requirements” [BF 161351]. This ordinance was substituted on February 28, 2017 and within this report will be referred to as **“Proposal A: Supervisor Kim and Supervisor Peskin.”** Supervisor Safai, Supervisor Breed, and Supervisor Tang introduced “Inclusionary Affordable Housing Fee and Dwelling Unit Mix Requirements” [Board File No. 170208] on February 28, 2017. This report will refer to this ordinance as **“Proposal B: Supervisor Safai, Supervisor Breed, and Supervisor Tang”**.

The legislative sponsors for Proposal A describe that this Inclusionary ordinance is intended to be paired with the State Density Bonus Law; and that such a pairing is needed to maintain the economic feasibility of individual development projects and to maximize affordable housing production.

The legislative sponsors of Proposal B have described that individual development projects would remain economically feasible with or without a density bonus. However, to maximize affordable housing production in a manner compatible with local policy goals, their Inclusionary ordinance is paired with HOME-SF⁵, a proposal for a locally tailored implementation of the state density bonus law.

Advisors. Available at:

<http://sfcontroller.org/sites/default/files/Documents/Economic%20Analysis/Final%20Inclusionary%20Housing%20Report%20February%202017.pdf>

⁵ On March 13, 2017 the Land Use and Transportation Committee amended an ordinance previously reviewed by the Commission when it was titled “Affordable Housing Bonus Program” [Board File Number [161351v6](#)], renaming the Local Affordable Housing Bonus Program as the HOME-SF Program. The legislative sponsor, Supervisor Tang, announced changes to the program to afford protections for small businesses and change the levels of affordability to match a companion ordinance that would amend the Inclusionary Affordable Housing Program sponsored by Supervisors Safai, Breed & Tang.

Planning Commission Hearings and Additional Supporting Material

The Commission held an informational hearing on the proposed changes on March 16, 2017. The accompanying staff report for that informational hearing, dated March 9, 2017, provides a more detailed summary of the current inclusionary housing program; the findings and recommendations of the Controller's Study; the provisions of both proposed ordinances; and key policy considerations around proposed changes to each component of the program.

The **informational report is publicly available with the supporting materials for the March 9, 2017 Planning Commission hearing⁶**, when the item was originally calendared. That report included a comparison chart of the provisions of both proposed ordinances, as well as the current program. **This comparison chart is reproduced here as Exhibit A** for reference.

This report is intended to assist the Commission's action on the proposed ordinances. As such, less background is provided and the focus is on potential recommendations for each of the program areas for which changes have been proposed. For ease of reference, **a summary chart of the recommendations by topic is provided here as Exhibit B.**

⁶ <http://commissions.sfplanning.org/cpcpackets/2017-001061PCA-02.pdf>

II. IMPLEMENTATION CONSIDERATIONS

Either proposed ordinance would constitute the most sweeping set of structural and material changes to the City's Inclusionary Housing Program since the program's inception. Accordingly, Planning Department staff have reviewed each ordinance carefully and seek to raise key program implementation considerations before the Commission.

In addition to the major policy objectives discussed below, these considerations also guided staff's recommendations on the proposed changes to the inclusionary program. This section provides a brief summary of the key implementation considerations by topic. Most of these considerations will require the development of additional policies and procedures by the Planning Department after the adoption of final legislation.

Designation of Inclusionary Units

The Planning Department is responsible for legally designating the specific inclusionary affordable units within a project that elects the on-site alternative. This process is bound by multiple procedures and requirements in the Planning Code and the Procedures Manual published by MOHCD and approved by this Commission. The total of these requirements relate to the distribution of the units throughout the building and comparability of affordable and market rate units, among other factors.

The proposed ordinances would include inclusionary units at multiple income tiers, and at specific dwelling unit mixes, and would require the development of new procedures to clearly define how inclusionary units will be designated.

The Department has not yet developed these procedures, and the recommendations in this report do not reflect any particular approach to unit designation under either ordinance. The Department has, however, had experience in review of a project with multiple income tiers and is confident that staff will be able to broadly implement such requirements.

Rental to Condominium Conversions

Both ordinances would establish higher requirements for condominium projects than for rental projects. In the event that a project converts from rental to condominium after the project's entitlement, the Planning Department would be responsible for implementing any conversion procedures called for in Section 415. Staff's recommendation for a conversion fee is included in this report.

However, it should be noted that the Planning Department does not currently have procedures in place to monitor changes in project tenure following entitlement, and the range of options available to monitor such conversions is unknown at this time. Such procedures would need to be developed in coordination with the Department of Public Works, which is currently the primary agency responsible for tracking such conversions.

“Grandfathering” and Specific-Area Requirements

The proposed amendments to Section 415 would significantly impact the “grandfathering” provisions established by Proposition C; certain area-specific inclusionary requirements for pipeline and future projects; and modify requirements applicable to projects that are currently in the development pipeline in some cases. Accordingly, the Department offers specific recommendations regarding these issues in the relevant section of the report below.

Schedule of Annual Increases to Requirements

Both ordinances would establish a schedule of annual increases to the inclusionary requirements. Such provisions would require that the Planning Department publish new requirements annually for 10 or more years, and apply these requirements in a consistent and appropriate manner for projects whose entitlement process will span several years. Accordingly, the Department offers specific recommendations regarding this provision in the relevant section of the report below.

Affordable Housing Fee Application

The Planning Department is responsible for assessing the Affordable Housing Fee for projects that elect the fee option. The proposals would modify the way the fee is assessed, including a proposal to assess the fee on a per square foot basis, rather than the current method of assessing the fee on a per unit basis. The Department’s recommendation in the relevant section of this report reflects any implementation considerations related to such amendments.

III. REQUIRED COMMISSION ACTION

The proposed Ordinances are before the Commission so that it may 1) make recommendations to the Board of Supervisors as required by Planning Code Section 302; 2) affirm the Planning Department's determinations under the California Environmental Quality Act; 3) make findings of consistency of the proposed ordinances [Board Files 161351v2; 170208] and the associated HOME-SF Program [Board File Number 150969v6], with the General Plan; and 4) make findings regarding the eight priority policies of Planning Code Section 101.1.

These items may be acted upon or may be continued, at the discretion of the Commission.

IV. RECOMMENDATIONS

The Department recommends making findings in support of the proposed Ordinances and associated actions as described in the attached draft resolution (Exhibit C). This section focuses on potential Commission recommendations based on staff analysis of the City's affordable housing need, our existing housing programs, the findings of the Controller's Study, comments from the Commission and the public, consultation with MOHCD, and considerations of program implementation. A summary of these recommendations is provided as Exhibit B.

These recommendations build on the key policy issues and considerations described in detail in the informational report dated March 9, 2017. These considerations are briefly reintroduced below as needed. For detailed reference, the informational report is available online with the materials for the March 9, 2017 Planning Commission hearing⁷ and the comparison chart of proposed amendments from that report is included here as Exhibit A, for reference.

A. APPLICATION

No changes are proposed to the general application of Section 415 requirements. The program would continue to apply only to projects of 10 or more units. Projects of 25 or more units would continue to have higher requirements than smaller projects, which would remain subject to the requirements in place prior to the passage of Proposition C.⁸

- **Recommendation:** Requirements should continue to be applied differently for Smaller and Larger Projects, as currently defined in both Ordinances. **No amendments are needed.**

⁷ <http://commissions.sfplanning.org/cpcpackets/2017-001061PCA-02.pdf>

⁸ As of January 1, 2016 Section 415 required that projects of 10 or more units provide 12% of units on-site, or pay a fee or provide off-site units equivalent of 20% of the project total.

B. INCLUSIONARY REQUIREMENTS

Rental and Ownership Requirements

Both proposals would set higher requirements for ownership projects than for rental projects, as recommended by the Controller's Study.

- **Recommendation:** Set higher requirements for ownership projects than for rental projects. Both Ordinances would establish this structure. **No amendments are needed.**

In addition, Proposal A would establish additional **conversion provisions** for projects that are entitled as a rental project, but convert to an ownership project at a subsequent time. Staff concurs with both concepts and recommends the following:

- **Recommendation:** Final legislation should **include a condominium conversion provision** to specify that **projects** converting to ownership projects must pay a **conversion fee** equivalent to the difference between the fee requirement for ownership projects in effect at the time of the conversion and the requirement the project satisfied at the time of entitlement. **Include provisions of Proposal A, with modifications.**

Requirement for the On-Site Alternative

Both proposals would amend the on-site requirement for larger projects. Proposal A would exceed the maximum economically feasible requirement recommended by the Controller. Proposal B would set the rate at the maximum of this range.

- **Recommendation:** Establish a requirement that is within the range of "maximum economically feasible" requirements recommended in the Controller's Study. **Include provisions of Proposal B without modification.** Specifically, this would establish an on-site rate of 18% or 20% for rental or ownership projects, respectively.

Requirement for the Affordable Housing Fee or Off-Site Alternative

Both proposals set the requirement for payment of the Affordable Housing Fee or off-site alternative for larger projects at the equivalent of the corresponding on-site requirement, with the exception that Proposal A's ownership fee rate would be slightly less costly to a project than the on-site alternative.

- **Recommendation:** Establish a requirement that is within the range of "maximum economically feasible" fee or off-site alternative requirements recommended in the Controller's Study. **Include provisions of Proposal B without modification.** Specifically, this would establish a fee or off-site rate of 23% or 28% for rental or ownership projects, respectively.

C. SCHEDULE OF ANNUAL INCREASES TO REQUIREMENTS

Both proposals would establish a schedule of annual increases to the percentage requirements, though under different conditions. This addition to the Inclusionary Program was recommended in the Controller's Study on the premise that phasing in an increase in the inclusionary requirement over time at a predictable rate would allow the land market to absorb the increase and remain economically viable for development; while securing higher levels of affordable housing production over time.

Staff recommends that final legislation include a schedule of annual increases that is consistent with the Controller's recommendation, with modifications:

- **Recommendation:** Final legislation should **establish an explicit maximum requirement** at which the schedule of increases would terminate, and that rate should be below the maximum requirement supported by the Nexus Study. **Include provisions of Proposal B without modification.**
- **Recommendation:** Final legislation should **establish that requirement rates be increased by 1.0 percentage point every two years.** This is equivalent to the Controller's recommendation of an increase of 0.5 percentage points per year, but would provide for a more effective and transparent implementation of the program by more closely matching the pace of the entitlement process and minimizing ambiguity in the rounding of requirement percentages. **Include provisions of Proposal B, with modifications.**

- **Recommendation:** The schedule of **increases should commence no fewer than 24 months following the effective date of final legislation** if the rate is set to increase biannually, or no fewer than 12 months following the effective date if the rate is set to increase annually. Under either ordinance, **final legislation should be amended accordingly.**

Determination and “Sunset” of Requirement

Both proposed ordinances include a “sunset” provision to specify the duration that a project’s inclusionary requirement would be effective during the entitlement process. Proposal A does not specify at what point the requirement would be determined, but would establish that the requirement be reset if the project has not procured a first construction document within 2 years of entitlement. Proposal B would determine the requirement amount at the time of a project’s Environmental Evaluation Application (EEA) and establish that the requirement be reset if the project has not received a first construction document within 3 years of entitlement. Both proposals would reset the requirement to the requirement applicable at the time, and not count time elapsed during potential litigation or appeal of the project.

- **Recommendation:** Final legislation should **establish a “sunset” provision that is consistent with current practices** for the determination of inclusionary requirements and Planning Department procedures. **Include provisions of Proposal B without modification.**

D. AFFORDABLE HOUSING FEE

Both proposals would modify the way the Affordable Housing Fee is applied to projects that elect to pay the fee, as well as the method used to calculate the dollar amount of the fee. The Controller's Study called for no specific changes to the application of or methodology for the fee, but did recommend that the fee amount should be maintained at a level that reflects the cost to construct affordable units.

Application of Fee

The Affordable Housing Fee is currently assessed on a per unit basis, with the fee amount increasing with the type of unit, ranging from studio to 4-bedroom units. This method of assessing the fee does not account for the actual size of units or the total area of the project.

- **Recommendation:** Final legislation should **apply the fee on a per gross square foot basis** so that the fee is assessed proportionally to the total area of the project. **Include provisions of Proposal B without modification.**

Calculation of Fee

The dollar amount of the fee is currently calculated based on the cost of construction of residential housing and the maximum purchase price for BMR ownership units. MOHCD is required to update the fee amount annually.

- **Recommendation:** Final legislation should direct MOHCD to calculate the fee to **match the actual cost to the City to construct below market rate units**. This cost should reflect the construction costs of units that are typically in MOHCD's below market rate pipeline, and should not vary based on the building type of the subject project. **Include provisions of Proposal B without modification.**

E. INCOME LEVELS

Currently, inclusionary units are designated as affordable at two discrete income tiers – units serving “low-income” or “moderate-income” households, as defined in Section 415. Both proposals would modify the income levels that inclusionary units are designated to serve. Specifically, both proposals would broaden the affordability requirements to serve households at a range of income levels within a defined range, or at specific tiers.

Either proposal would constitute a significant structural change in the way units are designated. Planning Department staff, in consultation with MOHCD, considered the City’s affordable housing need and existing housing programs to arrive at the following recommendations:

- **Recommendation:** Final legislation should **establish affordability requirements that clearly apply to the maximum rent or maximum sale price of the inclusionary unit**, and not to the income level of the household placed in that unit. This distinction is critical to ensure that MOHCD retains flexibility to both serve households that may earn significantly below the target level, and allow for households that make slightly more than the target level to remain eligible, as set forth in the MOHCD Procedures Manual, which will come before this Commission for review. Under either ordinance, **final legislation should be amended accordingly.**
- **Recommendation:** Final legislation should **designate inclusionary units at three discrete affordability levels for larger projects** to better serve households with incomes between the current low and moderate income tiers. This method would provide for a more even distribution of inclusionary units across eligible low and moderate income households, and minimize the coverage gap for household between the existing income tiers. **Include provisions of Proposal B, with modifications.**
- **Recommendation:** Final legislation should **designate inclusionary units at a single affordability level for smaller projects**. This recommendation reflects the scale of these smaller projects, which would in many cases provide fewer than three total inclusionary units. This requirement should be set to match the middle tier established for larger projects, as described below. **Include provisions of Proposal B, with modifications.**

In addition to the structural changes to how inclusionary units are designated, both proposals would also broaden the affordability levels served by the program to serve moderate and middle income households that are not currently served by any existing housing programs, and also are generally not served by market rate housing.

Staff compared existing and proposed affordability requirements to current data on the City's affordable housing need and existing housing programs to recommend an appropriate range of affordability levels to be served by the Inclusionary Program. Note that, again, the requirements set forth in the Planning Code should stipulate the maximum rent or sale price of inclusionary units, while MOHCD will continue to exercise discretion in placing eligible households in the most appropriate affordable unit, as availability and individual household incomes allow.

- **Recommendation:** Final legislation should **target inclusionary units to serve the gap in coverage** between low-income households who can access other existing housing programs, and moderate and middle-income households earning less than the level needed to access market rate units. **Include provisions of Proposal B, with modifications**, as follows:

Smaller Projects (10 – 24 units)			
	Tier 1	Tier 2	Tier 3
Rental Projects	N/A	80% of AMI	N/A
Owner Projects	N/A	110% of AMI	N/A

Larger Projects (25 or more units)			
	Tier 1	Tier 2	Tier 3
Rental Projects	55% of AMI	80% of AMI	110% of AMI
Owner Projects	90% of AMI	110% of AMI	140% of AMI

For **rental projects**, these recommended affordability levels are intended to provide that:

- units at the low end of the range (Tier 1) supplement the supply of units affordable to low-income households currently served by other housing programs; and
- units at the high end of the range (Tier 3) would serve households earning above the level served by other housing programs, but below the level served by the market.

For **ownership projects**, these recommended affordability levels are intended to provide that:

- units at the low end of the range (Tier 1) serve households at the lowest income level possible, while still recognizing the significant financial burden (i.e. down payment, mortgage payments, HOA fees, etc.) required of homebuyer; and
- units at the high end of the range (Tier 3) would serve households earning above the level served by other housing programs, but not higher than the level for which data supports a clear affordability need and well below the level served by the market.

For both rental and ownership projects, the middle tier (Tier 2) would provide a mid-point for households earning above the low-income level, but below the middle-income level; accordingly, this tier is set closer to the lower tier to serve as a “stepping stone” for households with growing incomes, or households who earn slightly above the low-income level and are not served by other affordable housing programs or market rate units.⁹

⁹ Market rate rents and sale prices vary widely depending on location and building type. In developing the above recommendations, staff looked at a range of market rate rents and sale prices for recently built developments. For example, average market rents for one-bedroom units were observed to range from \$3,100 - \$4,200 per month, which would be affordable to the equivalent of a two-person household earning roughly 150% to 200% of AMI, respectively. These levels significantly exceed the income level of the moderate income households that would be served under the higher tier of the above recommendation. Similar analysis was conducted for two-bedroom units as well as for market rate condominium units, which were assumed to range from \$650,000 - \$1,100,000 for new one-bedroom units, depending on location, which would be affordable to the equivalent of roughly 200% to 350% AMI.

F. DENSITY BONUS PROVISIONS

The Controller's Study concluded that the use of the State Density Bonus Law would impact the outcomes of the Inclusionary Program, if eligible project sponsors who elect the on-site alternative also choose to seek and receive a State Bonus. The Controller's Study further concluded that it would not be reasonable to assume that all projects will utilize the State Bonus, or that if those projects would necessarily receive the maximum bonus allowed. Accordingly, the **Controller's recommendation was to set the inclusionary requirements at the economically feasible level not assuming use of the State Bonus**, and that projects that do receive a State Bonus should pay the Affordable Housing Fee on bonus units.

Proposal A's Inclusionary Ordinance is paired with the State Density Bonus Law. As the sponsoring Supervisors have described, this proposal achieves feasibility by partnering with the State Density Bonus Law. This means that development would not be feasible, according to the Controller's Study, unless the maximum density bonus is provided as allowed under state law (35%). This proposal encourages use of the state bonus law, which requires the City to grant project sponsors a wide range of concessions and waivers from local massing, height, bulk and other development controls, generally at the discretion of the sponsor.

Proposal B's Inclusionary Ordinance is paired with HOME-SF. Here, the sponsoring Supervisors have described that the project sponsors seeking increased density would be encouraged to use a local program (HOME-SF) that tailors the density bonus to San Francisco's local context and policy goals. The HOME-SF program would frame the bonus by providing specified options for how local massing, height, bulk and other development controls may be modified; and provide for a higher percentage of inclusionary affordable units for projects using the HOME-SF program; and also encourage greater production of family-friendly units and include small business protections. The pairing of these two proposals has been crafted in a way that intends to make projects feasible with or without the use of a density bonus.

- **Recommendation:** Final legislation should encourage the use of density bonuses to maximize the production of affordable housing. At the same time, because a density bonus may not be desired in every situation, **the inclusionary requirements established in Section 415 should be economically feasible regardless of whether a density bonus is exercised. Include provisions of Proposal B without modification.**
- **Recommendation:** The final Inclusionary ordinance should be paired with a local density bonus ordinance, such as the proposed HOME-SF Program, that provides increased density and other concessions similar to the State Density Bonus Law in a manner that is tailored to the San Francisco's contextual and policy needs. **Include provisions of Proposal B without modification.**

Additional Administrative Requirements for Density Bonus

Proposal A does not incorporate the Controller's recommendations, but would enact three additional administrative requirements for the Planning Department related to the use of the State Bonus. Staff recommends the following action on these proposed requirements:

- **Recommendation:** Final legislation should **direct the Planning Department to require "reasonable documentation" from project sponsors seeking a State Bonus** to establish eligibility for a requested density bonus, incentives of concession, and waivers or reductions of development standards, as provided for under state law. **Include provisions of Proposal A without modification.**
- **Recommendation:** Final legislation should **require the Planning Department to prepare an annual report on the use of the Density Bonus** to the Planning Commission beginning in January 2018 that details the number of projects seeking a bonus and the concessions, waivers, and level of bonus provided. **Include provisions of Proposal A without modification.**
- **Recommendation:** Final legislation should **not include a requirement to provide information about the value of the density bonus, concessions, and waivers sought** by a project. This proposal would be difficult and costly to implement, in particular because the Department may not be able to compel project sponsors to provide the type of financial information required to perform such analysis. **Do not include this provision of Proposal A.**

Affordable Housing Fee for Bonus Units

The Controller's Study sought to provide guidance as to how the Inclusionary Program should account for the use of the State Density Bonus, recognizing that the use of the program would vary widely based on specific project conditions while the Inclusionary Program establishes requirements that apply to eligible projects on a citywide basis.

The Controller recommended that projects that receive a State Bonus be required to pay the Affordable Housing Fee on any additional units authorized under the State Bonus, similar to how the City impose other impact fees for infrastructure and other City services.

- **Recommendation:** Final legislation should **require that projects pay the Affordable Housing Fee** on any additional units authorized by the State Bonus program. **Include provisions of Proposal B without modification.**

G. UNIT MIX REQUIREMENTS

Both proposals would establish new dwelling unit mix requirements, an area not addressed in the current Inclusionary Program. **Proposal A** would require that **on-site inclusionary units** contain a minimum of 40% of units as 2-bedroom units, and an additional minimum of 20% of on-site inclusionary units as 3-bedroom units or larger. **Proposal B** would require that all residential projects not already subject to the existing unit mix requirement in Plan Areas¹⁰ be subject to a new requirement that 25% of **total units** be provided as 2-bedroom units or larger, or that 10% of total units be provided as 3-bedroom units or larger.

¹⁰ In the RTO, RCD, NCT, DTR, and Eastern Neighborhoods Mixed Use districts, the current requirement is for 40% of total project units to be provided as 2-bedroom units or larger, or for 30% of total project units to be provided as 3-bedroom units or larger.

- **Recommendation:** Dwelling unit mix requirements should **apply to total project units, not only to on-site inclusionary units** to allow for inclusionary units to be provided comparable to market rate units, as required in Section 415 and under both Ordinances. Under either ordinance, **final legislation should be amended accordingly.**

Both proposals are intended to increase the supply of housing units that serve the needs of family households, particularly households with children. The Controller's Study did not examine this issue specifically. However, the economic analysis underlying the Study's feasibility conclusions did reflect development prototypes that fulfilled the Plan Area unit mix requirement by including 35% of units at 2-bedroom units, and 5% of units as 3-bedroom units, for a total of 40% of total project units.

- **Recommendation:** Final legislation **should not set unit mix requirements that would exceed the 40% total large unit requirement** already in place in Plan Areas, and assumed in the Controller's feasibility conclusions. This is a recommendation for a parameter to guide final legislation. **Proposal A does not meet this parameter. Proposal B meets this parameter.**
- **Recommendation:** Dwelling mix requirements should be set in a manner that would **yield a mix of both 2-bedroom and 3-bedroom units**; this may be best achieved by setting a minimum requirement for 3-bedroom units within the large unit requirement. This is a recommendation for a parameter to guide final legislation. **Proposal A meets this parameter. Proposal B does not meet this parameter.**

In addition, Planning Department staff has conducted preliminary analysis on the demographic composition of family households in San Francisco and of the unit mix in the City's existing housing stock and recent development pipeline. While this research is not complete, the preliminary findings suggest:

- 10% of San Francisco households are **families with 2 or more children**, who may be more likely to need a 3-bedroom or larger unit.
- 14% of San Francisco households are **families with 4 or more people**, including families with children *and* families without children, who may be more likely to need a 3-bedroom or larger unit.

Finally, it should also be noted that there may be affordability trade-offs to dwelling unit mix requirements. Larger units will be, at least in the first several years of building occupancy, less affordable to households with fewer than two income earners. The City does not have the ability to require that larger units be made available for family households; data suggest that the majority of larger units are currently not occupied by family households. The Department's recommendations largely focus on maximizing affordability. These recommendations have an unknown impact on affordability and are therefore only provided as "parameters" for final legislation that seek to balance the goals of maximizing affordability with the goal of providing units with more bedrooms.

H. "GRANDFATHERING" PROVISIONS

Following the passage of Proposition C in June 2016, Section 415 was amended to establish incremental on-site, off-site, and fee requirement percentages for projects that entered the development pipeline between January 2013 and January 2016 (as defined by the acceptance date of the project's Environmental Evaluation Application or EEA). Projects that entered the pipeline prior to January 2013 are subject to the inclusionary rates in effect prior to the passage of Proposition C¹¹, while those that entered the pipeline after January 12, 2016 will be subject to the final requirements to be established by the proposed Ordinances.

Incremental Increases for Pipeline Projects

Smaller Projects (10 – 24 units) were unaffected by the passage of Proposition C and remain subject to the on-site and off-site or fee requirements in place prior to Proposition C.

- **Recommendation:** Smaller Projects should remain subject to "grandfathered" on-site and fee or off-site requirements. Both Ordinances would maintain this structure. **No amendments are needed.**

¹¹ As of January 1, 2016 Section 415 required that projects of 10 or more units provide 12% of units on-site as low income units, or pay a fee or provide off-site units equivalent of 20% of the project total.

Larger Projects (25 or more units) that entered the pipeline between 2013 and 2016 are subject to the incremental increases established by Proposition C. However, in some cases these rates exceed the maximum economically feasible rate identified by the Controller's Study and should be retained or amended as follows:

- **Recommendation:** Larger Projects (25 or more units) choosing the **on-site alternative** should remain subject to the incremental percentage requirements established by Proposition C. **Include provisions of Proposal B without modification.**
- **Recommendation:** The incremental increases established for Larger Projects choosing the **fee or off-site alternatives**, however, exceed the maximum feasible rate; these requirements should be amended to match the permanent requirements established in the final legislation, which should not exceed the feasible rate. **Include provisions of Proposal B without modification.**

Area-Specific Inclusionary Requirements

Additional incremental increases were also established for Larger Projects that entered the development pipeline between 2013 and 2016 in the Eastern Neighborhoods Urban Mixed Use (UMU) districts. Projects in these districts are subject to the specific inclusionary requirements established in Section 419 of the Planning Code to reflect the zoning modifications implemented through the Eastern Neighborhoods Area Plan. In some cases, these incremental increases exceed the maximum feasible rate.

- **Recommendation:** The incremental increases established by Proposition C for Larger Projects that entered the pipeline before 2016 and are located in UMU districts should be removed, leaving the area-specific requirements of Section 419 in place for these projects. **Include provisions of Proposal B without modification.**

Additionally, final legislation should make clear that for projects in UMU districts that enter the pipeline after January 12, 2016 whether area-specific or citywide inclusionary requirements apply.

- **Recommendation:** Final legislation should explicitly establish that projects in UMU districts that entered the pipeline after January 12, 2016 **should be subject to the higher of the on-site, fee, or off-site requirements** set forth in Section 419 or the citywide requirements in Section 415, as established by final legislation. Under either ordinance, **final legislation should be amended accordingly.**

Additional Provisions

The “grandfathering” provisions of Proposition C only addressed the requirement rates and did not specify when other features of the inclusionary program would be applicable (e.g. income level targets) to projects in the entitlement process. Given the additional changes to the inclusionary program proposed in both ordinances, staff recommends as follows:

- **Recommendation:** Final legislation should **establish that all other Section 415 provisions will apply to pipeline projects**, regardless of the acceptance date of the project’s EEA; projects that were fully entitled prior to the effective date of final legislation would be subject to the inclusionary requirements in effect at the time of entitlement. Under either ordinance, **final legislation should be amended accordingly.**

A comparison table of current and recommended “grandfathering” and UMU districts requirements is provided as Exhibit D.

V. ENVIRONMENTAL REVIEW

On March 1, 2017 the Environmental Review Officer determined that the legislation filed by Supervisors Kim and Peskin [Board File No. 161351] is not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it does not result in a physical change in the environment.

On March 7, 2017 the Environmental Review Officer determined that the legislation filed by Supervisors Safai, Breed, and Tang [Board File No. 170208] is not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it does not result in a physical change in the environment.

VI. PUBLIC COMMENT

As of the date of publication the Planning Department has received written public comment on the proposed amendments, as well as extensive public comment provided at the Planning Commission informational hearings on February 23 and March 16, 2017.

The bulk of the concerns raised in these hearings were focused on the income levels to be served by the program, the inclusionary requirement percentages, and the impact of the State Density Bonus Law on the program.

Most speakers addressed the income levels at which inclusionary units should be designated, and many urged that the program should primarily serve the needs of low-income households as provided for by other existing affordable housing programs, and that the expansion of the inclusionary program to serve low- and moderate-income households above this level be limited to the levels established by Proposition C. Many speakers also highlighted the growing need for housing affordable to moderate-income households who have traditionally been served by market rate units, but who have also struggled to find affordable housing in recent years. Many also shared their personal experience being unable to find adequate housing in San Francisco either because they could not afford market rate rents, were unable to access the limited supply of affordable units, or because they earned too much to qualify for available affordable units, but not enough to access market rate units.

Regarding the inclusionary requirement percentages, speakers generally advocated for a higher inclusionary rate than that in place prior to Proposition C, but differed on how the conclusions

and recommendations of the Controller's Study and legal limits supported by the City's Nexus Study should be applied to the inclusionary program. Many speakers expressed that the rate should be as high as economically possible, while many others felt that the rates should be set higher than the maximum rates recommended in the Controller's Study.

In particular, many commenters focused on the impact of the State Density Bonus Law on the inclusionary program. Generally, those who felt the Bonus Law would result in most San Francisco developments receiving significant density bonuses supported higher inclusionary rates, while others cautioned that the requirements should avoid imposing too high a requirement and thus become ultimately ineffective.

Written comment was also received during and subsequently to recent hearings, and is attached as Exhibit E. At the February 23 hearing several speakers presented data on household income levels. In addition, a letter was presented from the Council of Community Housing Organizations which posed a series of important questions for consideration by Commissioners, which generally match the topic areas addressed in the accompanying staff report to the hearing. Most notably, the letter advised that the availability of the State Density Bonus Law should support higher inclusionary rates than those recommended in the Controller's Study; that requirements should increase over time at the higher end of the range discussed by the Controller's Technical Advisory Committee; that moderate-income households should be served by the inclusionary program, but not at the expense of low-income households; that the program should be structured to discourage projects to "fee out"; and that the more two- and three-bedroom units should be provided to meet the needs of family households.

At the March 16 hearing a document titled "Statement of Principles on Inclusionary Housing" was presented on behalf of about two-dozen listed organizations. The statement focused on concerns that the inclusionary program should continue to prioritize housing for low-income households at the income levels historically served by the program, and served by other existing housing programs. While recognizing the struggle of middle income households to find affordable housing, the statement urged that the inclusionary program not be expanded to serve these households beyond the levels established in Proposition C.

In addition, the Planning Department received a letter addressed to the Mayor and Board of Supervisors dated April 10 from Yimby Action. The letter expressed opposition to both proposed ordinances based on concerns related to the methodology of the Controller's Economic Feasibility Study and Nexus Study, and proposed that modifications to the inclusionary program be postponed until these analyses can be revised.

VII. EXHIBITS

Exhibit A – Comparison Table of Proposed Amendments to Section 415 (from informational report from March 9, 2017 hearing)

Exhibit B – Comparison Table of Draft Recommendations for Amendments to Section 415

Exhibit C – Draft Planning Commission Resolution

Exhibit D – Comparison Table of current and recommended “Grandfathering” and UMU requirements

Exhibit E – Written public comment received to date

EXHIBIT A: COMPARISON TABLE of PROPOSED AMENDMENTS to SECTION 415 – PLANNING COMMISSION INFORMATIONAL HEARING 3/9/2017 (reproduced for ADOPTION HEARING 4/27/17)

	Current 415 (Prop C 2016)		Proposal A: Sup. Kim, Sup. Peskin <u>changes from current 415 underlined</u>		Proposal B: Sup. Safai, Sup. Breed, Sup. Tang <u>changes from current 415 underlined</u>	
1. Application [415.3]	Varies by project size: <ul style="list-style-type: none">No requirement: <10 units“Smaller projects”: 10-24 units“Larger projects”: 25+ units		No change from current 415		No change from current 415	
2. Income levels [415.2]	<u>Rental:</u> Smaller projects:: <ul style="list-style-type: none">55% AMI max. Larger projects: <ul style="list-style-type: none">“Low”: 55% AMI“Mod.”: 100% AMI	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">80% AMI max. Larger projects: <ul style="list-style-type: none">“Low”: 80% AMI“Mod.”: 120% AMI	<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">55% AMI <u>avg.</u>; <u>45 – 65% AMI</u> Larger projects: <ul style="list-style-type: none">“Low”: 55% AMI <u>avg.</u>; <u>40 – 80% AMI</u>“Mod.”: 100% AMI <u>avg.</u>; <u>80 – 120% AMI</u>	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">80% AMI <u>avg.</u>; <u>70 – 90% AMI</u> Larger projects: <ul style="list-style-type: none">“Low”: 80% AMI <u>avg.</u>; <u>60 – 100% AMI</u>“Mod.”: 120% AMI <u>avg.</u>; <u>100 – 140% AMI</u>	<u>Rental:</u> Smaller projects: <ul style="list-style-type: none"><u>80%</u> AMI max. Larger projects: <ul style="list-style-type: none"><u>80% AMI avg.</u>; <u>55, 80, 110% AMI</u>	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none"><u>120%</u> AMI max. Larger projects: <ul style="list-style-type: none"><u>120% AMI avg.</u>; <u>90, 120, 140% AMI</u>
3. Fee requirement [415.5]	Smaller projects: <ul style="list-style-type: none">20% of on-site units Larger projects: <ul style="list-style-type: none">33% of on-site units		<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units Larger projects: <ul style="list-style-type: none"><u>30%</u> of on-site units	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units Larger projects: <ul style="list-style-type: none">33% of on-site units	<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units (converted to per sq. ft. fee) Larger projects: <ul style="list-style-type: none"><u>23%</u> of on-site units (converted to per sq. ft. fee)	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units (converted to per sq. ft. fee) Larger projects: <ul style="list-style-type: none"><u>28%</u> of on-site units (converted to per sq. ft. fee)
4. On-site alternative [415.6]	Smaller projects: <ul style="list-style-type: none">12% low income Larger projects: <ul style="list-style-type: none">25% of total:<ul style="list-style-type: none">15% low income10% moderate income <i>*equivalent to: 25% at 73% AMI avg (rental) 25% at 96% AMI avg. (owner)</i>		<u>Rental</u> Smaller projects: <ul style="list-style-type: none">12% low income (55% AMI <u>avg.</u>; <u>45 – 65% AMI</u>) Larger projects: <ul style="list-style-type: none"><u>24%</u> of total:<ul style="list-style-type: none">15% low income (55% AMI <u>avg.</u>; <u>40 – 80% AMI</u>)<u>9%</u> moderate income (100% AMI <u>avg.</u>; <u>80 – 120% AMI</u>) <i>*equivalent to <u>24%</u> at <u>72%</u> AMI average</i>	<u>Ownership</u> Smaller projects: <ul style="list-style-type: none">12% low income (80% AMI <u>avg.</u>; <u>70 – 90% AMI</u>) Larger projects: <ul style="list-style-type: none"><u>27%</u> of total:<ul style="list-style-type: none">15% low income (80% AMI <u>avg.</u>; <u>60 – 100% AMI</u>)<u>12%</u> moderate income (120% AMI <u>avg.</u>; <u>100 – 140% AMI</u>) <i>*equivalent to <u>27%</u> at <u>98%</u> AMI average</i>	<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">12% <u>at 80% AMI</u> Larger projects: <ul style="list-style-type: none"><u>18%</u> at: (<u>80% AMI avg.</u>; <u>55, 80, 110% AMI</u>) <i>*equivalent to <u>18%</u> at <u>80%</u> AMI average</i>	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">12% <u>at 120% AMI</u> Larger projects: <ul style="list-style-type: none"><u>20%</u> at: (<u>120% AMI avg.</u>; <u>90, 120, 140% AMI</u>) <i>*equivalent to <u>20%</u> at <u>120%</u> AMI average</i>
5. Off-site alternative [415.7]	Smaller projects: <ul style="list-style-type: none">20% of on-site units at low income Larger projects: <ul style="list-style-type: none">33% of on-site units<ul style="list-style-type: none">20% low income13% moderate income <i>*equivalent to 33% at 73% AMI avg (rental) 33% at 96% AMI avg. (owner)</i>		<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units at (55% AMI <u>avg.</u>; <u>45 – 65% AMI</u>) Larger projects: <ul style="list-style-type: none"><u>30%</u> of on-site units<ul style="list-style-type: none"><u>18%</u> low income (55% AMI <u>avg.</u>; <u>40 – 80% AMI</u>)<u>12%</u> mod. Income (100% AMI <u>avg.</u>; <u>80–120% AMI</u>) <i>*equivalent to <u>30%</u> at <u>73%</u> AMI average</i>	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">20% of on-site units at (80% AMI <u>avg.</u>; <u>70 – 90% AMI</u>) Larger projects: <ul style="list-style-type: none">33% of on-site units<ul style="list-style-type: none"><u>18%</u> low income (80% AMI <u>avg.</u>; <u>60-100% AMI</u>)<u>15%</u> mod. Income (120% AMI <u>avg.</u>; <u>100-140% AMI</u>) <i>*equivalent to 33% at 98% AMI average</i>	<u>Rental:</u> Smaller projects: <ul style="list-style-type: none">20% at <u>80%</u> AMI Larger projects: <ul style="list-style-type: none"><u>23%</u> at: <u>80% AMI avg.</u>; <u>55, 80, 110% AMI</u> <i>*equivalent to <u>23%</u> at <u>85%</u> AMI average</i>	<u>Ownership:</u> Smaller projects: <ul style="list-style-type: none">20% at <u>120%</u> AMI Larger projects: <ul style="list-style-type: none"><u>28%</u> at: <u>120% AMI avg.</u>; <u>90, 120, 140% AMI</u> <i>*equivalent to 28% at 120% AMI average</i>

EXHIBIT A: COMPARISON TABLE of PROPOSED AMENDMENTS to SECTION 415 – PLANNING COMMISSION INFORMATIONAL HEARING 3/9/2017 (reproduced for ADOPTION HEARING 4/27/17)

6. Future Increases to Requirements (i.e. “the ramp”)	N/A	<p>Starting Jan 1, <u>2018</u>, annual increase of <u>0.75%</u> in requirement for larger project, until maximum legal limit as per current Nexus Study.</p> <ul style="list-style-type: none"> Determination of requirement: <ul style="list-style-type: none"> <u>It is not specified when the requirement would be applied to a project.</u> Effective for <u>2 years</u> after project entitlement (w/ tolling for appeals) <p>If project re-applies, current requirement applied</p>	<p>Starting Jan 1, <u>2019</u>, annual increase in requirement for larger projects, until max of: <i>(max would be achieved in 10 years if increased annually)</i></p> <ul style="list-style-type: none"> Fee: <u>0.5%</u> (max: <u>28%</u> / <u>33%</u> rental/owner) On-site: <u>0.5%</u> (max: <u>23%</u> / <u>25%</u> rental/owner) Off-site: <u>0.5%</u> (max: <u>28%</u> / <u>33%</u> rental/owner) <ul style="list-style-type: none"> Determination of requirement: <ul style="list-style-type: none"> Requirement applied at first Environmental Application Effective for <u>3 years</u> after project entitlement (w/ tolling for appeals) If project re-applies, current requirement applied
7. Calculation of Fee [415.5(b)(2)]	No change from current 415	<p>MOHCD to calculate fee using current methodology, but for 3 building types as both rental and owner (6 total):</p> <ul style="list-style-type: none"> < 55’ height – rental/owner 55 – 85’ height – rental/owner 85’ + height – rental/owner 	<p>MOHCD to charge fee on a per gross square foot of residential area basis; calculated using MOHCD’s cost to construct.</p> <p>Planning Code will continue to cite requirements as percent of on-site units and reference MOHCD manual to the equivalent per-square-foot amount of fee.</p>
8. “Grandfathering” Provision [415.3]	<p>EE Application Accepted after Jan 1, 2013 but on/before:</p> <ul style="list-style-type: none"> Jan 1, 2014 <ul style="list-style-type: none"> Fee/off-site: 25% On-site: 13% Jan 1, 2015 <ul style="list-style-type: none"> Fee/Off-site: 27.5% On-site: 13.5% Jan 12, 2016 <ul style="list-style-type: none"> Fee/Off-site: 30% On-site: 14.5% <p><i>*exceptions:</i></p> <ul style="list-style-type: none"> If no construction permit by Dec 7, 2018, full requirement applies If area-specific fee in place, the higher of the two fees applies (419, UMU, SoMa Youth/Family District SUDs w/ height increase) Projects seeking SDBL with EE before Jan 12, 2016 to use “best efforts” for 25% on-site If project > 120’ height, full requirement applies (25/33) 	<p>No change from current 415 for “grandfathered” projects, with the exception that projects that have filed an EE Application after January 12, 2016 would be subject to the requirements set forth above.</p>	<p>EE Application Accepted after Jan 1, 2013 but on/before:</p> <ul style="list-style-type: none"> Jan 1, 2014 <ul style="list-style-type: none"> Fee/off-site: <u>23%</u> / <u>28%</u> (rental/owner) On-site: 13% Jan 1, 2015 <ul style="list-style-type: none"> Fee/Off-site: <u>23%</u> / <u>28%</u> (rental/owner) On-site: 13.5% Jan 12, 2016 <ul style="list-style-type: none"> Fee/Off-site: <u>23%</u> / <u>28%</u> (rental/owner) On-site: 14.5% <p><i>*exceptions:</i></p> <ul style="list-style-type: none"> If no construction permit by Dec 7, 2018, full requirement applies If area-specific fee in place, the higher of the two fees applies (419, UMU, SoMa Youth/Family District SUDs w/ height increase) Projects seeking SDBL with EE before Jan 12, 2016 to use “best efforts” for 25% on-site If project > 120’ height, full requirement applies (25/33)

EXHIBIT A: COMPARISON TABLE of PROPOSED AMENDMENTS to SECTION 415 – PLANNING COMMISSION INFORMATIONAL HEARING 3/9/2017 (reproduced for ADOPTION HEARING 4/27/17)

9. State Density Bonus	N/A <i>*Projects meeting the requirements set forth would qualify for up to a 35% density bonus under state law</i>	Projects meeting the requirements set forth would qualify for up to a 35% density bonus under state law. In addition, the following requirements would be established: <ul style="list-style-type: none">• Applicant seeking SDBL must submit “reasonable documentation” to support application for concessions/waivers• The Planning Department would be required to provide information about the value of the density bonus and concessions to the Planning Commission• Beginning January 2018, the Planning Department would be required to prepare an annual report to the Planning Commission about the number of density bonus projects in the development pipeline.	Qualifying projects providing on-site units and that receive additional density under the Bonus Law would be required to use the existing combination alternative (partial on-site and partial fee) provided for in Section 415 to pay the Affordable Housing Fee on any additional units authorized under the Bonus Law.
10. Unit mix	N/A	Projects electing the on-site option would be required to provide: <ul style="list-style-type: none">• 40% of on-site units as two-bedroom units, AND• 20% of on-site units as three-bedroom or larger units	Projects located outside of Plan Areas with greater than 25 units would be required to provide as follows, regardless of Inclusionary Housing application: <ul style="list-style-type: none">• 25% of total units as two-bedroom units, OR• 10% of total units as three-bedroom units

EXHIBIT B: COMPARISON TABLE OF DRAFT RECOMMENDATIONS FOR AMENDMENTS TO SECTION 415 -- PLANNING COMMISSION ADOPTION HEARING APRIL 27, 2017

	Proposal A: Supervisors Kim and Peskin	Draft Planning Commission Recommendations	Proposal B: Supervisors Safai, Breed, and Tang
1. Application	No change from current Section 415	No change from current Section 415 No amendments needed.	No change from current Section 415
2. Income levels	<u>Smaller Projects</u> <ul style="list-style-type: none"> Rental: 55% AMI average (45 – 65% AMI range) Owner: 80% AMI average (70 – 90% AMI range) <u>Larger Projects</u> <ul style="list-style-type: none"> Rental: <ul style="list-style-type: none"> Low-income: 55% AMI average (40 – 80% AMI range) Mod-income: 100% AMI average (80 – 120% AMI) Owner: <ul style="list-style-type: none"> Low-income: 80% AMI average (60 – 100% AMI range) Mod-income: 120% AMI average (100 – 140% AMI) 	<u>Smaller Projects</u> <ul style="list-style-type: none"> Rental: 80% AMI Owner: 110% AMI <u>Larger Projects</u> <ul style="list-style-type: none"> Rental: tiers at 55, 80, 110% AMI Owner: tiers at 90, 110, 140% AMI Include provisions of Proposal B, with modifications.	<u>Smaller Projects</u> <ul style="list-style-type: none"> Rental: 80% AMI Owner: 120% AMI <u>Larger Projects</u> <ul style="list-style-type: none"> Rental: 80% AMI average (tiers at 55, 80, 110% AMI) Owner: 120% AMI average (tiers at 90, 120, 140% AMI)
Rationale:		<ul style="list-style-type: none"> <i>Designate inclusionary units at three discrete affordability levels for larger projects to better serve households with incomes between the current low and moderate income tiers.</i> <i>Serve the gap in coverage between low-income households served by existing housing programs and moderate and middle-income households earning less than the level needed to access market rate units.</i> 	
3. On-site alternative	<u>Smaller Projects</u> <ul style="list-style-type: none"> 12% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 24% for rental projects 27% for ownership projects 	<u>Smaller Projects</u> <ul style="list-style-type: none"> 12% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 18% for rental projects 20% for ownership projects Include provisions of Proposal B without modification.	<u>Smaller Projects</u> <ul style="list-style-type: none"> 12% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 18% for rental projects 20% for ownership projects
Rationale:		<i>Establish a requirement that is within the range of “maximum economically feasible” requirements recommended in the Controller’s Study.</i>	
4. Fee or Off-site alternative	<u>Smaller Projects</u> <ul style="list-style-type: none"> 20% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 30% for rental projects 33% for ownership projects 	<u>Smaller Projects</u> <ul style="list-style-type: none"> 20% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 23% for rental projects 28% for ownership projects Include provisions of Proposal B without modification.	<u>Smaller Projects</u> <ul style="list-style-type: none"> 20% for rental or ownership projects <u>Larger Projects</u> <ul style="list-style-type: none"> 23% for rental projects 28% for ownership projects
Rationale:		<i>Establish a requirement that is within the range of “maximum economically feasible” requirements recommended in the Controller’s Study.</i>	

EXHIBIT B: COMPARISON TABLE OF DRAFT RECOMMENDATIONS FOR AMENDMENTS TO SECTION 415 -- PLANNING COMMISSION ADOPTION HEARING APRIL 27, 2017

5. Condominium Conversion Fee	Rental projects that convert to ownership projects, or rental units that convert to condominium units, after entitlement would be subject to either a conversion fee or required to designate additional on-site BMR units.	Rental projects that convert to ownership projects after entitlement would be subject to a conversion fee equivalent to the difference between the fee requirement applicable for ownership projects and rental projects. Include the provisions of Proposal A, with modifications.	No conversion provision.
Rationale:		<ul style="list-style-type: none"> • <i>Ensure that projects entitled at the lower rental requirement are subject to the higher ownership requirement, if the project converts.</i> • <i>Apply this provision at the project level and as a conversion fee, to facilitate program implementation and for consistency with the program requirements of Section 415, which apply to residential projects.</i> 	
6. Schedule of Annual Increases	<ul style="list-style-type: none"> • Increase Increment: 0.75% per year • Start date: January 1, 2018 • Maximum Requirement: Not stated. Increases would continue until maximum legal limit per current Nexus Study is met. <p>Determination of requirement:</p> <ul style="list-style-type: none"> • <u>It is not specified when the requirement would be applied to a project.</u> • Effective for <u>2 years</u> after project entitlement (w/ tolling for appeals) • If project re-applies, current requirement applied 	<ul style="list-style-type: none"> • Increase Increment: 1.0% every two years • Start Date: <ul style="list-style-type: none"> ○ 24 months after effective date, if increased bi-annually (recommended), OR ○ 12 months after effective date, if increased annually • Maximum Requirement: <ul style="list-style-type: none"> ○ On-site max: <u>23% / 25%</u> rental/owner ○ Fee/Off-site max: <u>28% / 33%</u> rental/owner <p>Determination of requirement:</p> <ul style="list-style-type: none"> • Requirement applied at first Environmental Application • Effective for <u>3 years</u> after project entitlement (w/ tolling for appeals) • If project re-applies, current requirement applied <p>Include provisions of Proposal B, with modifications.</p>	<ul style="list-style-type: none"> • Increase Increment: 0.5% per year • Start date: January 1, 2019 • Maximum Requirement: <ul style="list-style-type: none"> ○ On-site max: <u>23% / 25%</u> rental/owner ○ Fee/Off-site max: <u>28% / 33%</u> rental/owner <p>Determination of requirement:</p> <ul style="list-style-type: none"> • Requirement applied at first Environmental Application • Effective for <u>3 years</u> after project entitlement (w/ tolling for appeals) • If project re-applies, current requirement applied
Rationale:		<ul style="list-style-type: none"> • <i>Phase in requirement increases over time to allow the land market to adjust, while securing higher levels of inclusionary production over time.</i> • <i>Modify to implement increases every two years, and no sooner than 24 months following effective date, in order to phase in increases over a reasonable period of time, and to facilitate program implementation.</i> 	
7. Affordable Housing Fee	<ul style="list-style-type: none"> • Apply the fee on a per unit basis • Calculate the fee to reflect the cost to construct affordable units in three different building types and as both rental and owner 	<ul style="list-style-type: none"> • Apply the fee on a per gross square foot basis • Calculate the fee to match the actual cost to City to construct affordable units <p>Include provisions of Proposal B without modification.</p>	<ul style="list-style-type: none"> • Apply the fee on a per gross square foot basis • Calculate the fee to match the actual cost to City to construct affordable units
Rationale:		<i>Enable MOHCD to calculate and apply an Affordable Housing Fee that accurately reflects the cost to the City of building affordable units.</i>	

EXHIBIT B: COMPARISON TABLE OF DRAFT RECOMMENDATIONS FOR AMENDMENTS TO SECTION 415 -- PLANNING COMMISSION ADOPTION HEARING APRIL 27, 2017

8. State Density Bonus Provisions	<ul style="list-style-type: none"> Projects would have to achieve a maximum State Bonus of 35% in order to maintain economic feasibility; would encourage maximum use of the State Bonus Law. <p>The following administrative requirements would also be established:</p> <ul style="list-style-type: none"> Planning Department would require applicants seeking State Bonus to submit “reasonable documentation” to support application. Planning Department would be required to prepare an annual report to the Planning Commission about the number of density bonus projects in the development pipeline. Planning Department would be required to provide information about the value of the density bonus and concessions. 	<ul style="list-style-type: none"> Projects should be able to maintain economic feasibility with or without use of the State Bonus. Include provisions of Proposal B without modification. Projects providing on-site units and that receive additional density under the Bonus Law would be required to pay the Affordable Housing Fee on any additional units authorized under the Bonus Law. Include this provision of Proposal B without modification. Planning Department would require applicants seeking State Bonus to submit “reasonable documentation” to support application. Include this provision of Proposal A without modification. Planning Department would be required to provide information about the value of the density bonus and concessions. Include this provision of Proposal A without modification. Planning Department would be required to provide information about the value of the density bonus and concessions. Do not include this provision of Proposal A. 	<ul style="list-style-type: none"> Projects would maintain economic feasibility with or without use of State Bonus; would encourage projects to achieve additional density through a local implementation of the State Bonus Law (HOME SF program). Projects providing on-site units and that receive additional density under the Bonus Law would be required to pay the Affordable Housing Fee on any additional units authorized under the Bonus Law.
Rationale:		<ul style="list-style-type: none"> <i>The Controller’s Study found that the universal use of the State Bonus Law could not be assumed and recommended that projects maintain economic feasibility with or without use of the State Bonus.</i> <i>The Controller’s Study recommended that projects receiving a State Bonus pay the Affordable Housing Fee on bonus units.</i> <i>Administrative requirements for the Planning Department to require “reasonable documentation” and provide annual report to the Planning Commission are reasonable and would provide important information to the public. A requirement for the Planning Department to estimate the value of a Bonus for every project would be impractical, and possibly inconsistent with state law.</i> 	
9. Unit mix	<p>Projects electing the on-site option would be required to provide:</p> <ul style="list-style-type: none"> 40% of on-site units as two-bedroom units, AND 20% of on-site units as three-bedroom or larger units 	<ul style="list-style-type: none"> Any requirement should apply to the total project units, not only to the on-site inclusionary units. Final legislation should be amended accordingly. Total large unit requirement should not exceed 40% of project units. Large unit requirement should yield a mix of both 2-bedroom and 3-bedroom units. 	<p>Projects located outside of Plan Areas with greater than 25 units would be required to provide as follows:</p> <ul style="list-style-type: none"> 25% of total units as two-bedroom units, OR 10% of total units as three-bedroom units

EXHIBIT B: COMPARISON TABLE OF DRAFT RECOMMENDATIONS FOR AMENDMENTS TO SECTION 415 -- PLANNING COMMISSION ADOPTION HEARING APRIL 27, 2017

<i>Rationale:</i>		<ul style="list-style-type: none"><i>The requirement should apply to the total project units to allow inclusionary units to be provided comparable to market rate units.</i><i>The Controller’s Study assumed a 40% large bedroom requirement in its economic feasibility conclusions to match the current Plan Area requirement. Requirements above this amount have not been analyzed for feasibility impacts.</i><i>Preliminary analysis suggests there is a need for some amount of 3-bedroom units; requirements should seek to yield a specific amount of these units.</i>	
10. “Grandfathering” Provisions and Area-Specific Requirements	Would maintain incremental increases to on-site, and fee/off-site requirements for pipeline projects; establish additional requirements for buildings over certain height limits; and apply the higher of area-specific or citywide requirements in UMU districts.	<ul style="list-style-type: none">Maintain incremental increases in on-site requirement for pipeline projects.Remove incremental increase in fee/off-site requirement for pipeline projects.Remove incremental increase in requirements for UMU districts, leaving requirements of Section 419 in place.Explicitly establish that the higher of area-specific or citywide inclusionary requirements apply in all cases.All other provisions of Section 415 (beyond the percentage requirements addressed above) should be applied to any pipeline or new project as established in final legislation. Only entitled projects would be subject to the inclusionary requirements in effect at the time of entitlement. <p>Include provisions of Proposal B, with modifications to provide that the higher of area-specific or citywide requirements shall apply, and that all other provisions of Section 415 apply to pipeline and new projects as established in final legislation.</p>	Would maintain incremental increases to on-site requirement for pipeline projects; remove incremental increase to fee/off-site requirements for pipeline projects; remove additional requirements for buildings over certain height limits; and apply the higher of area-specific or citywide requirements in UMU districts in most cases.
<i>Rationale:</i>		<ul style="list-style-type: none"><i>Apply inclusionary requirements to pipeline projects that do not exceed the maximum economically feasible level recommended in the Controller’s Study.</i><i>Maintain previously established area-specific inclusionary requirements, and ensure that the higher or area-specific or citywide requirements will apply in all cases.</i><i>Make clear that all unentitled pipeline and new projects would be subject to all other requirements of Section 415 for consistency and to facilitate program implementation.</i>	



SAN FRANCISCO PLANNING DEPARTMENT

DRAFT Planning Commission Resolution No. _____

HEARING DATE: APRIL 27, 2017

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Project Name: **Inclusionary Affordable Housing Program (Sec 415) Amendments**
Case Number: **2017-001061PCA**

Initiated by: **Supervisors Kim and Peskin**, Introduced December 13, 2016
Version 2, Introduced February 28, 2017
Inclusionary Affordable Housing Fee and Requirements
[Board File No. 161351]

Initiated by: **Supervisors Safai, Breed, and Tang** Introduced February 28, 2017
Inclusionary Affordable Housing Fee and Dwelling Unit Mix Requirements
[Board File No. 170208]

Staff Contact: Jacob Bintliff, Citywide Planning Division
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Reviewed by: AnMarie Rodgers, Senior Policy Advisor
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RECOMMENDING THAT THE BOARD OF SUPERVISORS 1) ADOPT A PROPOSED ORDINANCE, WITH MODIFICATIONS THAT WOULD AMEND THE PLANNING CODE TO REVISE THE AMOUNT OF THE INCLUSIONARY AFFORDABLE HOUSING FEE AND THE ON-SITE AND OFF-SITE AFFORDABLE HOUSING ALTERNATIVES AND OTHER INCLUSIONARY HOUSING REQUIREMENTS; REQUIRE MINIMUM DWELLING UNIT MIX IN ALL RESIDENTIAL DISTRICTS; AFFIRM THE PLANNING DEPARTMENT'S DETERMINATION UNDER THE CALIFORNIA ENVIRONMENTAL QUALITY ACT; MAKE FINDINGS UNDER PLANNING CODE, SECTION 302; AND MAKE FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN, AND THE EIGHT PRIORITY POLICIES OF PLANNING CODE, SECTION 101.1 AND 2) AND MAKE FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN AND THE EIGHT PRIORITY POLICIES OF PLANNING CODE SECTION 101.1 FOR THE AFFORDABLE HOUSING BONUS PROGRAMS AND HOME-SF.

WHEREAS, on December 13, 2016 Supervisor Kim and Supervisor Peskin introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 161351 (referred to in this resolution as Proposal A), which amends Section 415 of the Planning Code to revise the amount of the Inclusionary Affordable Housing Fee and the On-Site and Off-Site Affordable Housing Alternatives and other Inclusionary Housing requirements; and adds reporting requirements for density bonus projects; and,

WHEREAS, on February 28, 2017 Supervisor Kim and Supervisor Peskin introduced substitute legislation under Board File Number 161351v2; and,

WHEREAS, on February 28, 2017 Supervisor Safai, Supervisor Breed, and Supervisor Tang introduced a proposed ordinance under Board File Number 170208 (referred to in this resolution as Proposal B), which amends the Planning Code to revise the amount of the Inclusionary Affordable Housing Fee and the On-Site and Off-Site Affordable Housing Alternatives and other Inclusionary Housing requirements; and requires a minimum dwelling unit mix in all residential districts; and,

WHEREAS, on September 29, 2015, Mayor Ed Lee and Supervisor Tang introduced a proposed Ordinance under Board File Number 150969, to add Planning Code Section 206 to create the Affordable Housing Bonus Program, the 100 Percent Affordable Housing Bonus Program, the Analyzed State Density Bonus Program, and the Individually Requested State Density Bonus Program, to provide for development bonuses and zoning modifications for increased affordable housing, in compliance with, and above those required by the State Density Bonus Law, Government Code, Section 65915, et seq.; to establish the procedures in which these Programs shall be reviewed and approved; and to add a fee for applications under the Programs; and

WHEREAS, on October 15, 2015 the Planning Commission voted to initiate an amendment to the General Plan to add language to certain policies, objectives and maps that clarified that the City could adopt policies or programs that allowed additional density and development potential if a project included increased amounts of on-site affordable housing; and

WHEREAS, on February 25, 2016, this Commission found that the Affordable Housing Bonus Program was, on balance, consistent with the San Francisco General Plan as amended, and forwarded the Affordable Housing Bonus Program, together with several recommended amendments, to the Board of Supervisors for their consideration; and

WHEREAS, on June 13, 2016, Supervisor Tang duplicated the AHBP ordinance file and amended the AHBP ordinance to include only the 100% Affordable Housing Bonus Program, and amended the 100% Affordable Housing Bonus Program to, among other items, prohibit the use of the program on parcels containing residential units and to allow an appeal to the Board of Supervisors; and

WHEREAS, on June 30, 2016, in Resolution 19686, the Planning Commission found that both the 100% Affordable Housing Bonus Program [BF 150969] and 100% Affordable Housing Density and Development Bonuses [BF 160668] to be consistent with the General Plan, and in July 2016 the Board of Supervisors adopted the 100% Affordable Housing Bonus Program, which is now found in Planning Code section 206; and

WHEREAS, the state law requires that localities adopt ordinances implementing the State Density Bonus Law and comply with its requirements, and the Affordable Housing Bonus Program described in Board File No. 150969, would be such a local ordinance implementing the State Density Bonus Law; and

WHEREAS, on March 13, 2017 the Land Use and Transportation Committee amended the Affordable Housing Bonus Program in Board File Number 161351v6, renaming the Local Affordable Housing Bonus

Program as the HOME-SF Program and amending, among other requirements, the HOME-SF Program's average median income levels such that those levels mirror the average median income levels in the ordinance amending the Inclusionary Affordable Housing Program introduced by Supervisors Safai, Breed and Tang on February 28, 2017, and this Commission must consider whether the Affordable Housing Bonus Program ordinance as amended, is consistent with the General Plan; and

WHEREAS, both proposed ordinances amending the Inclusionary Affordable Housing Program include an explicit reference to the State Density Bonus Law under California Government Code Section 65915, and at least one of the proposed ordinances explicitly references the Affordable Housing Bonus Program in Board File No. 150969, or its equivalent; and

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public informational hearing at a regularly scheduled meeting to consider the two proposed ordinances on March 16, 2017; and

WHEREAS, The Commission conducted a duly noticed public hearing at a regularly scheduled meeting to consider the two proposed Ordinances on April 27, 2017; and

WHEREAS, the proposed amendments to the Inclusionary Affordable Housing Program in the two ordinances are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment, and on January 14, 2016 the Planning Department published Addendum 3 to the *2004 and 2009 Housing Element EIR* analyzing the environmental impacts of the Affordable Housing Bonus Program, and having reviewed the EIR and the addenda thereto, the Planning Commission finds that no further assessment of supplemental or subsequent EIR is required; and

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

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

WHEREAS, the Planning Commission has reviewed the two proposed ordinances amending the Inclusionary Affordable Housing Program and the amendments to the Affordable Housing Bonus Program including the HOME-SF Program; and

WHEREAS, The Planning Commission determines that:

1. In making the recommendation to revise the Inclusionary Affordable Housing Program, the Commission reaffirms the Board of Supervisor's policy established by Resolution Number 79-16 that it shall be City policy to maximize the economically feasible percentage of inclusionary affordable housing in market rate housing development.

2. Inclusionary requirements should not exceed the rates recommended in the Controller's Economic Feasibility Study established in Proposition C, that the maximum economically feasible requirements for the on-site alternative are 18% for rental projects or 20% for ownership projects, or the equivalent of a fee or off-site alternative requirement of 23% for rental projects or 28% for ownership projects.
3. The Inclusionary Affordable Housing Program requirements should remain below the City's current Nexus Study.
4. The City should use the Inclusionary Affordable Housing Program to help serve the housing needs for low-, moderate-, and above-moderate income households that area above the level eligible for projects supported by federal low income housing tax credits, and also earn below the minimum level needed to access market rate housing units in San Francisco. Specifically inclusionary units should be designated to serve households earning at or below 55%, 80%, and 110% of Area Median Income (AMI) for Rental Projects, or 90%, 110%, and 140% of Area Median Income (AMI) for Ownership Projects, with 25 or more units.
5. The Planning Department should implement additional monitoring and reporting procedures regarding the use of the State Density Bonus Law, and should require that eligible projects that seek and receive a bonus under the State Bonus Law pay the Affordable Housing Fee on additional units provided.
6. The incremental increases to the inclusionary requirements as established by the passage of Proposition C for projects that entered the pipeline between January 1, 2013 and January 12, 2016 should be retained for projects electing the on-site alternative, and removed for projects paying the Affordable Housing Fee or electing the off-site alternative, to maintain consistency with the recommended maximum economically feasible requirements recommended in the Controller's Study.
7. The City should adopt a local ordinance, such as the HOME-SF Program, that implements the State Density Bonus Law in a manner that is tailored to the San Francisco's contextual and policy needs.
8. The purpose of both the two proposed ordinances amending the Inclusionary Affordable Housing Program and the amendments to the proposed Affordable Housing Bonus Program ordinance to create the HOME-SF Program is to facilitate the development and construction of affordable housing in San Francisco.

NOW THEREFORE BE IT RESOLVED, that the Planning Commission hereby **finds** that 1) that both proposed ordinances to amend the Inclusionary Affordable Housing Program and the Commission's recommended modifications to the Inclusionary Affordable Housing Program and 2) the Affordable Housing Bonus Program, including the HOME-SF Program and pending amendments, are **consistent with the General Plan** for the reasons set forth below; and be it

FURTHER RESOLVED, that the Planning Commission hereby **recommends that the Board of Supervisors approve** a modified ordinance that combines elements of both proposals to revise the Inclusionary Affordable Housing Program as described within this resolution and adopts the findings as set forth below.

FINDINGS

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

9. **General Plan Compliance.** The three proposed Ordinances and the Commission's recommended modifications are consistent with the following Objectives and Policies of the General Plan:

HOUSING ELEMENT

OBJECTIVE 1

IDENTIFY AND MAKE AVAILABLE FOR DEVELOPMENT ADEQUATE SITES TO MEET THE CITY'S HOUSING NEEDS, ESPECIALLY PERMANENTLY AFFORDABLE HOUSING.

POLICY 1.1

Plan for the full range of housing needs in the City and County of San Francisco, especially affordable housing.

Both ordinances amending the Inclusionary Affordable Housing Program further the potential for creation of permanently affordable housing in the City and facilitate an increase the number of affordable housing units that could be built in San Francisco. Generally affordable projects require that units be affordable for 55 years or permanently, depending on the funding source. This program is one tool to plan for affordable housing needs of very low, low and moderate income households.

The HOME-SF Program eligible districts generally include the City's neighborhood commercial districts, where residents have easy access to daily services, and are located along major transit corridors. The HOME-SF Program eligible districts generally allow or encourage mixed uses and active ground floors. On balance the program area is located within a quarter-mile (or 5 minute-walk) of the proposed Muni Rapid Network, which serves almost 70% of Muni riders and will continue to receive major investments to prioritize frequency and reliability.

POLICY 1.6

Consider greater flexibility in number and size of units within established building envelopes in community based planning processes, especially if it can increase the number of affordable units in multi-family structures.

Both ordinances amending the Inclusionary Affordable Housing Program provide greater flexibility in the number of units permitted in new affordable housing projects by providing increased heights, relief from any residential density caps, and allowing some zoning modifications. This is achieved by pairing the

programs with either the State Density Bonus Law, California Government Code section 65915 et seq. or through a local ordinance implementing the state law, such as the Affordable Housing Bonus Program or HOME-SF.

POLICY 1.8

Promote mixed use development, and include housing, particularly permanently affordable housing, in new commercial, institutional or other single use development projects.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance generally include the city's neighborhood commercial districts, where residents have easy access to daily services, and are located along major transit corridors.

POLICY 1.10

Support new housing projects, especially affordable housing, where households can easily rely on public transportation, walking and bicycling for the majority of daily trips.

On balance, the ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance identify eligible parcels that are located within a quarter-mile (or 5 minute-walk) of the proposed Muni Rapid Network, which serves almost 70% of Muni riders and will continue to receive major investments to prioritize frequency and reliability. These ordinances would support projects that include affordable units where households could easily rely on transit.

POLICY 3.3

Maintain balance in affordability of existing housing stock by supporting affordable moderate ownership opportunities.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance increase affordable ownership opportunities for households with moderate incomes.

Proposed Ordinance BF 161351-2 amending the Inclusionary Affordable Housing Program generally maintains the current "low" and "moderate" income tiers, with the significant change that these targets would be defined as an average AMI served by the project, with units falling within a specified range of income levels. Considering the average incomes served (98% equivalent average for ownership), the proposal would serve households in the middle of both the Low Income (50 – 80% AMI) and Moderate Income (80 – 120% AMI) groups, and would meet the demonstrated need of both income groups, while serving segments of both income groups that are least served by the City's current affordable housing programs.

Proposed Ordinances BF 170208 amending the Inclusionary Affordable Housing Program and proposed Ordinance BF 150969 creating the HOME-SF Program would generally raise the AMI levels served by the Inclusionary Program, and also define income levels as an average AMI served by the project. Considering the average incomes served, these proposals would serve households at the upper end of both the Low Income (50 – 80% AMI) and Moderate (80 – 120% AMI) groups, and would meet the demonstrated need of both income groups, while serving segments of both income groups that are least served by the City's current affordable housing programs.

POLICY 4.1

Develop new housing, and encourage the remodeling of existing housing, for families with children.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance can increase the supply of new affordable housing, including new affordable housing for families. Both ordinance amending the Inclusionary Affordable Housing Program include dwelling unit mix requirements that encourage certain percentages of units with two or three bedrooms, and the HOME-SF Program includes a dwelling unit mix requirement and encourage family friendly amenities.

POLICY 4.4

Encourage sufficient and suitable rental housing opportunities, emphasizing permanently affordable rental units wherever possible.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance encourage the development of greater numbers of permanently affordable housing, including rental units. These affordable units are affordable for the life of the project.

Policy 4.5

Ensure that new permanently affordable housing is located in all of the city's neighborhoods, and encourage integrated neighborhoods, with a diversity of unit types provided at a range of income levels.

Both ordinances amending the Inclusionary Affordable Housing reach throughout the City and the HOME-SF Program Ordinance reaches the City's neighborhood commercial districts all three of which enables the City to increase the number of very low, low and moderate income households and encourage integration of neighborhoods.

OBJECTIVE 7

SECURE FUNDING AND RESOURCES FOR PERMANENTLY AFFORDABLE HOUSING, INCLUDING INNOVATIVE PROGRAMS THAT ARE NOT SOLELY RELIANT ON TRADITIONAL MECHANISMS OR CAPITAL.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance seek to create permanently affordable housing by leveraging the investment of private development.

Policy 7.5

Encourage the production of affordable housing through process and zoning accommodations, and prioritize affordable housing in the review and approval processes.

The HOME-SF Program Ordinance provides zoning and process accommodations including priority processing for projects that participate by providing on-site affordable housing.

OBJECTIVE 8

BUILD PUBLIC AND PRIVATE SECTOR CAPACITY TO SUPPORT, FACILITATE, PROVIDE AND MAINTAIN AFFORDABLE HOUSING.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance support this objective by revising the Inclusionary Affordable Housing Program to maximize the production of affordable housing in concert with the production of market-rate housing.

POLICY 8.3

Support the production and management of permanently affordable housing.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance support the production of permanently affordable housing supply.

POLICY 10.1

Create certainty in the development entitlement process, by providing clear community parameters for development and consistent application of these regulations.

The HOME-SF Program Ordinance proposes a clear and detailed review and entitlement process. The process includes detailed and limited zoning concessions and modifications. Depending the selected program projects will either have no change to the existing zoning process, or some projects will require a Conditional Use Authorization.

OBJECTIVE 11

SUPPORT AND RESPECT THE DIVERSE AND DISTINCT CHARACTER OF SAN FRANCISCO'S NEIGHBORHOODS.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance encourage mixed income buildings and neighborhoods.

In recognition that the projects utilizing the AHBP will sometimes be taller or of differing mass than the surrounding context, the AHBP Design Guidelines clarify how projects shall both maintain their size and adapt to their neighborhood context. These design guidelines enable AHBP projects to support and respect the diverse and distinct character of San Francisco's neighborhoods.

POLICY 11.3

Ensure growth is accommodated without substantially and adversely impacting existing residential neighborhood character.

Establishing permanently affordable housing in the City's various neighborhoods would enable the City to stabilize very low, low and moderate income households. These households meaningfully contribute to the existing character of San Francisco's diverse neighborhoods.

POLICY 11.5

Ensure densities in established residential areas promote compatibility with prevailing neighborhood character.

Both ordinances amending the Inclusionary Affordable Housing Program will produce buildings that are generally compatible with existing neighborhoods. State Density Bonus Law, California Government Code section 65915 et seq. does enable higher density that San Francisco's zoning would otherwise allow.

In recognition that the projects utilizing the AHBP will sometimes be taller or of differing mass than the surrounding context, the AHBP Design Guidelines clarify how projects shall both maintain their size and

adapt to their neighborhood context. These design guidelines enable AHBP projects to support and respect the diverse and distinct character of San Francisco's neighborhoods.

OBJECTIVE 12

BALANCE HOUSING GROWTH WITH ADEQUATE INFRASTRUCTURE THAT SERVES THE CITY'S GROWING POPULATION.

OBJECTIVE 13

PRIORITIZE SUSTAINABLE DEVELOPMENT IN PLANNING FOR AND CONSTRUCTING NEW HOUSING.

Housing produced under either ordinance amending the Inclusionary Affordable Housing Program and that produced through the HOME-SF Program Ordinance would pay impact fees that support the City's infrastructure.

POLICY 13.1

Support "smart" regional growth that locates new housing close to jobs and transit.

On balance the AHBP area is located within a quarter-mile (or 5 minute-walk) of the proposed Muni Rapid network, which serves almost 70% of Muni riders and will continue to receive major investments to prioritize frequency and reliability.

URBAN DESIGN ELEMENT

POLICY 4.15

Protect the livability and character of residential properties from the intrusion of incompatible new buildings.

In recognition that the projects utilizing the AHBP will sometimes be taller or of differing mass than the surrounding context, the AHBP Design Guidelines clarify how projects shall both maintain their size and adapt to their neighborhood context.

BALBOA PARK AREA PLAN

OBJECTIVE 4.5: PROVIDE INCREASED HOUSING OPPORTUNITIES AFFORDABLE TO A MIX OF HOUSEHOLDS AT VARYING INCOME LEVELS.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities for a mix of household incomes.

BAYVIEW AREA PLAN

OBJECTIVE 6 ENCOURAGE THE CONSTRUCTION OF NEW AFFORDABLE AND MARKET RATE HOUSING AT LOCATIONS AND DENSITY LEVELS THAT ENHANCE THE OVERALL RESIDENTIAL QUALITY OF BAYVIEW HUNTERS POINT.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance provide zoning and process accommodations which would increase affordable housing opportunities for a mix of household incomes.

CENTRAL WATERFRONT AREA PLAN

OBJECTIVE 2.1 ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN THE CENTRAL WATERFRONT IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance provide zoning and process accommodations which would increase affordable housing opportunities

CHINATOWN AREA PLAN

OBJECTIVE 3

STABILIZE AND WHERE POSSIBLE INCREASE THE SUPPLY OF HOUSING.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance provide zoning and process accommodations which would increase affordable housing opportunities.

DOWNTOWN PLAN

OBJECTIVE 7

EXPAND THE SUPPLY OF HOUSING IN AND ADJACENT TO DOWNTOWN.

The HOME-SF Program Ordinance provide zoning and process accommodations which would increase affordable housing opportunities.

MARKET AND OCTAVIA AREA PLAN

OBJECTIVE 2.4

PROVIDE INCREASED HOUSING OPPORTUNITIES AFFORDABLE TO HOUSEHOLDS AT VARYING INCOME LEVELS.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

MISSION AREA PLAN

OBJECTIVE 2.1

ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN THE MISSION IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

SHOWPLACE/POTRERO HILL AREA PLAN

OBJECTIVE 2.1

ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN THE SHOWPLACE /POTRERO IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

SOMA AREA PLAN

OBJECTIVE 3

ENCOURAGE THE DEVELOPMENT OF NEW HOUSING, PARTICULARLY AFFORDABLE HOUSING.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

WESTERN SHORELINE AREA PLAN

POLICY 11.1

Preserve the scale and character of existing residential neighborhoods by setting allowable densities at the density generally prevailing in the area and regulating new development so its appearance is compatible with adjacent buildings.

The AHBP's provide zoning and process accommodations which would increase affordable housing opportunities. Based on staff and consultant analysis, the City understands that current allowable densities are not always reflective of prevailing densities in a neighborhood. Many buildings constructed before the 1970's and 1980's exceed the existing density regulations. Accordingly zoning concessions available through the AHBP generally set allowable densities within the range of prevailing densities.

POLICY 11.3

Continue the enforcement of citywide housing policies, ordinances and standards regarding the provision of safe and convenient housing to residents of all income levels, especially low- and moderate-income people.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

POLICY 11.4

Strive to increase the amount of housing units citywide, especially units for low- and moderate-income people.

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

WESTERN SOMA AREA PLAN

OBJECTIVE 3.3

ENSURE THAT A SIGNIFICANT PERCENTAGE OF THE NEW HOUSING CREATED IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would increase affordable housing opportunities.

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

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

Neither ordinances amending the Inclusionary Affordable Housing Program would have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood-serving retail.

Pairing either ordinance with the HOME-SF Program Ordinance would create a net addition of neighborhood serving commercial uses. Many of the districts encourage or require that commercial uses be placed on the ground floor. These existing requirements ensure the proposed amendments will not have a negative effect on neighborhood serving retail uses and will not affect opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

Neither ordinance amending the Inclusionary Affordable Housing Program would have a negative effect on housing or neighborhood character.

Pairing either ordinance with the HOME-SF Program Ordinance would conserve and protect the existing neighborhood character by stabilizing very low, low and moderate income households who contribute greatly to the City's cultural and economic diversity, and by providing design review opportunities through the Affordable Housing Bonus Program Design Review Guidelines and Board of Supervisors appeal process.

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

Both ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance increase City's supply of permanently affordable housing.

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

Neither ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

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

resident employment and ownership in these sectors be enhanced;

Neither ordinances amending the Inclusionary Affordable Housing Program and the HOME-SF Program Ordinance would cause displacement of the industrial or service sectors due to office development as it does not enable office development. Further, protected industrial districts, including M-1, M-2 and PDR are not eligible for the HOME SF Program.

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

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

7. That the landmarks and historic buildings be preserved;

The proposed Ordinances would not have an adverse effect on the City's Landmarks and historic buildings. Further the HOME-SF Program Ordinance specifically excludes any projects that would cause a substantial adverse change in the significance of an historic resource as defined by California Code of Regulations, Title 14, Section 15064.5.

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

The proposed Ordinances would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas. Further the HOME-SF Program Ordinance specifically excludes any projects that would adversely impact wind or shadow.

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

BE IT FURTHER RESOLVED that the Commission hereby recommends that the Board ADOPT a proposed Ordinance amending the Inclusionary Affordable Housing Program that includes elements of both the Ordinance proposed by Supervisors Kim and Peskin (referred to below as Proposal A) and the Ordinance proposed by Supervisors Safai, Bree, and Tang (referred to below as Proposal B), as described here:

A. APPLICATION

- a. Inclusionary requirements should continue to apply only to residential projects of 10 or more units, and additional requirements should continue to be applied for Larger Projects of 25 or more units, as currently defined in both Ordinances. **No amendments are needed.**

B. INCLUSIONARY REQUIREMENTS

- a. The requirement for Smaller Projects (10 – 24 units) should remain 20% for the fee or off-site alternative, or 12% for the on-site alternative, as currently defined in both Ordinances.
No amendments are needed.
- b. Set higher requirements for ownership projects than for rental projects, for Larger Projects (25 or more units). Both Ordinances would establish this structure. **No amendments are needed.**
- c. **Include a condominium conversion provision** to specify that **projects** converting to ownership projects must pay a **conversion fee** equivalent to the difference between the fee requirement for ownership projects in effect at the time of the conversion and the requirement the project satisfied at the time of entitlement. **Include provisions of Proposal A, with modifications.**
- d. Establish fee, on-site, and off-site requirements for Larger Projects (25 or more units) that are within the range of “maximum economically feasible” requirements recommended in the Controller’s Study. **Include provisions of Proposal B without modification, as follows:**
- e. For Rental Projects:
 - Fee or Off-Site Alternative: equivalent of 23% of project units
 - On-Site Alternative: 18% of project units
- f. For Ownership Projects:
 - Fee or Off-Site Alternative: equivalent of 28% of project units
 - On-Site Alternative: 20% of project units

C. SCHEDULE OF ANNUAL INCREASES TO REQUIREMENTS

- a. **Establish an explicit maximum requirement** at which the schedule of increases would terminate, and that rate should be below the maximum requirement legally supported by the Nexus Study. **Include provisions of Proposal B without modification.**
- b. Establish that requirement rates be **increased by 1.0 percentage point every two years.** Include provisions of Proposal B, with modifications.
- c. The schedule of **increases should commence no fewer than 24 months following the effective date of final ordinance.** Under either ordinance, **final legislation should be amended accordingly.**

- d. **Establish a “sunset” provision that is consistent with current practices** for the determination of inclusionary requirements and Planning Department procedures, specifically that the requirement be established at the date of Environmental Evaluation Application and be reset if the project has not received a first construction document within three years of the project’s first entitlement approval. **Include provisions of Proposal B without modification.**

D. AFFORDABLE HOUSING FEE

- a. **Apply the fee on a per gross square foot basis** so that the fee is assessed proportionally to the total area of the project. **Include provisions of Proposal B without modification.**
- b. Revise language to allow MOHCD to calculate the fee to **match the actual cost to the City to construct below market rate units**, without factoring the maximum sale price of the equivalent inclusionary unit. **Include provisions of Proposal B without modification.**

E. INCOME LEVELS

- a. **Establish affordability requirements that clearly apply to the maximum rent or maximum sale price of the inclusionary unit**, and not to the income level of the household placed in that unit. Under either ordinance, **final legislation should be amended accordingly.**
- b. **Designate inclusionary units at three discrete affordability levels for larger projects** to better serve households with incomes between the current low and moderate income tiers. **Include provisions of Proposal B, with modifications.**
- c. Final legislation should **target inclusionary units to serve the gap in coverage** between low-income households who can access other existing housing programs and moderate and middle-income households earning less than the level needed to access market rate units. **Include provisions of Proposal B, with modifications**, as follows:
 - i. For Rental Projects:
 - i. Approximately one-third of units at no more than 55% of Area Median Income
 - ii. Approximately one-third of units at no more than 80% of Area Median Income
 - iii. Approximately one-third of units at no more than 110% of Area Median Income
 - ii. For Ownership Projects:
 - i. Approximately one-third of units at no more than 90% of Area Median Income
 - ii. Approximately one-third of units at no more than 110% of Area Median Income
 - iii. Approximately one-third of units at no more than 140% of Area Median Income

- d. **Designate inclusionary units at a single affordability level for smaller projects.** This requirement should be set to match the middle tier established for larger projects, as described below. **Include provisions of Proposal B, with modifications as follows:**
- For Rental Projects: all inclusionary units at no more than 80% of Area Median Income
 - For Ownership Projects: all inclusionary units at no more than 110% of Area Median Income

F. DENSITY BONUS PROVISIONS

- a. Encourage the use of density bonus to maximize the production of affordable housing. At the same time, because a density bonus may not be used in every situation, **the inclusionary requirements established in Section 415 should be economically feasible regardless of whether a density bonus is exercised. Include provisions of Proposal B without modification.**
- b. The final Inclusionary ordinance should be paired with a local density bonus ordinance, such as the HOME-SF Program, that implements the State Density Bonus Law in a manner that is tailored to the San Francisco's contextual and policy needs. **Include provisions of Proposal B without modification.**
- c. **Direct the Planning Department to require "reasonable documentation" from project sponsors seeking a State Bonus** to establish eligibility for a requested density bonus, incentives of concession, and waivers or reductions of development standards, as provided for under state law. **Include provisions of Proposal A without modification.**
- d. **Require the Planning Department to prepare an annual report on the use of the Density Bonus** to the Planning Commission beginning in January 2018 that details the number of projects seeking a bonus and the concessions, waivers, and level of bonus provided. **Include provisions of Proposal A without modification.**
- e. **Require that projects pay the Affordable Housing Fee** on any additional units authorized by the State Bonus program. **Include provisions of Proposal B without modification.**

G. UNIT MIX REQUIREMENTS

- a. Dwelling unit mix requirements should **apply to total project units, not only to on-site inclusionary units** to allow for inclusionary units to be provided comparable to market rate units, as required in Section 415. Under either ordinance, **final legislation should be amended accordingly.**

- b. Final legislation **should not set unit mix requirements that would exceed the 40% total large unit requirement** already in place in Plan Areas, and assumed in the Controller's feasibility conclusions. This is a recommendation for a parameter to guide final legislation.
- c. Dwelling mix requirements should be set in a manner that would **yield a mix of both 2-bedroom and 3-bedroom units**; this may be best achieved by setting a minimum requirement for 3-bedroom units within the large unit requirement. This is a recommendation for a parameter to guide final legislation.

H. "GRANDFATHERING" PROVISIONS

- a. Smaller Projects should remain subject to "grandfathered" on-site and fee or off-site requirements. Both Ordinances would maintain this structure. **No amendments are needed.**
- b. Larger Projects (25 or more units) choosing the **on-site alternative** should remain subject to the incremental percentage requirements established by Proposition C. **Include provisions of Proposal B without modification.**
- c. The incremental increases established for Larger Projects choosing the **fee or off-site alternatives**, should be amended to match the permanent requirements established in the final legislation, which should not exceed the maximum feasible rate. **Include provisions of Proposal B without modification.**
- d. The incremental increases established by Proposition C for Larger Projects that entered the pipeline before 2016 and are located in UMU districts should be removed, leaving the area-specific requirements of Section 419 in place for these projects. **Include provisions of Proposal B without modification.**
- e. Final legislation should explicitly establish that projects in UMU districts that entered the pipeline after January 12, 2016 **should be subject to the higher of the on-site, fee, or off-site requirements** set forth in Section 419 or the citywide requirements in Section 415, as established by final legislation. Under either ordinance, **final legislation should be amended accordingly.**
- f. **Establish that all other Section 415 provisions will apply to pipeline projects**, regardless of the acceptance date of the project's EEA; projects that were fully entitled prior to the effective date of final legislation would be subject to the inclusionary requirements in effect at the time of entitlement. Under either ordinance, **final legislation should be amended accordingly.**

Exhibit C: Draft Resolution

DRAFT Resolution No. _____

April 27, 2017

CASE NO. 2017-001061PCA

Inclusionary Affordable Housing Program Amendments

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on April 27 2017.

Jonas P. Ionin
Commission Secretary

AYES:

NOES:

ABSENT:

ADOPTED:

Exhibit D: RECOMMENDED "Grandfathering" and UMU Requirements (Proposal B, without modification)

CURRENT Requirements for Projects that filed EE before/after 1/12/16						RECOMMENDED Requirements for Projects that filed EE before/after 1/12/16				
CITYWIDE APPLICATION										
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
On-site										
10-24 unit projects	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
25+ unit projects	12.0%	13.0%	13.5%	14.5%	25.0%	12.0%	13.0%	13.5%	14.5%	18%/20%
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
Fee or Off-site										
10-24 unit projects	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
25+ unit projects	20.0%	25.0%	27.5%	30.0%	33.0%	20.0%	23%/28%	23%/28%	23%/28%	23%/28%
25+ unit projects over 120' in height *	33.0%	33.0%	33.0%	33.0%	33.0%					
UMUs APPLICATION										
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
On-site UMU										
Tier A 10-24 unit projects	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%
Tier A 25+ unit projects	14.4%	15.4%	15.0%	16.4%	25.0%	14.4%	14.4%	14.4%	14.5%	18%/20%
Tier B 10-24 unit projects	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Tier B 25+ unit projects	16.0%	17.0%	17.5%	18.0%	25.0%	16.0%	16.0%	16.0%	16.0%	18%/20%
Tier C 10-24 unit projects	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%
Tier C 25+ unit projects	17.6%	18.6%	19.1%	19.6%	25.0%	17.6%	17.6%	17.6%	17.6%	18%/20%
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
Fee or Off-site UMU										
Tier A 10-24 unit projects	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Tier A 25+ unit projects	23.0%	28.0%	30.5%	33.0%	33.0%	23.0%	23%/28%	23%/28%	23%/28%	23%/28%
Tier B 10-24 unit projects	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Tier B 25+ unit projects	25.0%	30.0%	32.5%	33.0%	33.0%	25.0%	25%/28%	25%/28%	25%/28%	25%/28%
Tier C 10-24 unit projects	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Tier C 25+ unit projects	27.0%	32.0%	33.0%	33.0%	33.0%	27.0%	27%/28%	27%/28%	27%/28%	27%/28%
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
Land Dedication in UMU or Mission NCT										
Tier A 10-24 unit < 30K	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier A 10-24 unit > 30K	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tier A 25+ unit < 30K	35.0%	40.0%	42.5%	45.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier A 25+ unit > 30K	30.0%	35.0%	37.5%	40.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tier B 10-24 unit < 30K	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Tier B 10-24 unit > 30K	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier B 25+ unit < 30K	40.0%	45.0%	47.5%	50.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Tier B 25+ unit > 30K	35.0%	40.0%	42.5%	45.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier C 10-24 unit < 30K	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Tier C 10-24 unit > 30K	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Tier C 25+ unit < 30K	45.0%	50.0%	52.5%	55.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Tier C 25+ unit > 30K	40.0%	45.0%	47.5%	50.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16	EEA filed before 1/1/13	EEA filed before 1/1/14	EEA filed before 1/1/15	EEA filed before 1/12/16	EEA filed after 1/12/16
Middle Income Alternative in UMU Districts										
Tier A 10-24 unit projects	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tier A 25+ unit projects	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tier B 10-24 unit projects	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier B 25+ unit projects	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Tier C 10-24 unit projects	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Tier C 25+ unit projects	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

* except buildings up to 130 feet in height located both within a special use district and within a height and bulk district that allows a maximum building height of 130 feet.

EXHIBIT E: PUBLIC COMMENT RECEIVED TO DATE

2016 Salary AMI Calculator

	Hourly Wage	One-salary Avg Income	Two-salaries Avg Income	1-person HH AMI	3-person HH AMI	4-person HH AMI	Monthly Rent incl. Utilities 1-Person HH Studio	3-Person HH 2 BDRM	4-Person HH 3 BDRM
Average SSI benefit	\$7.14	\$14,856	\$29,712	20%	31%	28%	\$ 356.00	\$ 711.00	\$ 713.00
Minimum wage, 2016-2017	\$13.00	\$27,040	\$54,080	36%	56%	50%	\$ 642.00	\$ 1,284.00	\$ 1,274.00
School Paraprofessional (UESF)	\$14.42	\$30,000	\$60,000	40%	62%	56%	\$ 714.00	\$ 1,421.00	\$ 1,426.00
Cashier (UFCW)	\$16.35	\$34,000	\$68,000	45%	70%	63%	\$ 803.00	\$ 1,605.00	\$ 1,605.00
Janitor (SEIU 87)	\$16.35	\$34,000	\$68,000	45%	70%	63%	\$ 803.00	\$ 1,605.00	\$ 1,605.00
Hotel Room Cleaner (HERE Local 2)	\$19.23	\$40,000	\$80,000	53%	83%	74%	\$ 945.00	\$ 1,903.00	\$ 1,885.00
Pharmacy Technician	\$22.12	\$46,000	\$92,000	61%	95%	85%	\$ 1,088.00	\$ 2,178.00	\$ 2,165.00
Construction Laborer (LIUNA)	\$23.08	\$48,000	\$96,000	64%	99%	89%	\$ 1,142.00	\$ 2,269.00	\$ 2,267.00
Apprentice Carpenter	\$30.00	\$62,400	\$124,800	83%	129%	116%	\$ 1,481.00	\$ 2,957.00	\$ 2,955.00
School Teacher (UESF)	\$30.29	\$63,000	\$126,000	84%	130%	117%	\$ 1,499.00	\$ 2,980.00	\$ 2,980.00

100% SF Area Median Income	\$36.25	\$75,400	\$150,800	100%	\$96,950	\$107,700
Very Low Income Workers and Fixed-Income, served by nonprofit housing						
Low- and Moderate Workforce Housing, served by Inclusionary Housing						

Sources:

2016 AMI Income Limits: <http://sfmohcd.org/income-limits-and-rent-limits-below-market-rate-rental-units>
 2016 Janitor Salaries: <http://www1.salary.com/CA/San-Francisco/Janitor-Salary.html>
 2016 Hotel worker Salaries: <http://www.unitehere2.org/about/>
 2016 School Salaries: <http://www.sfexaminer.com/sfusd-teachers-call-salary-boost-amid-housing-crisis/>
 2017 salaries: <http://www.bizjournals.com/sanfrancisco/news/2017/01/05/san-francisco-jobs-with-the-largest-pay-gains-2016.html#gl>
 2017 minimum wage: [https://calloptedia.org/City_of_San_Francisco_Minimum_Wage_Increase_Referred_Measure_Proposition_1_\(November_2014\)](https://calloptedia.org/City_of_San_Francisco_Minimum_Wage_Increase_Referred_Measure_Proposition_1_(November_2014))
 2016 SSI: <http://www.pressreader.com/usa/san-francisco-chronicle/20161019/281646779669073>

	Rental	Condo
Pre-Prop C Sec 415 Inclusionary	55% AMI maximum	90% AMI maximum
PROP C Incomes Served	55% AMI Avg (40-70% range) 100% AMI Avg (80-120% range)	80% AMI Avg (60-100% range) 120% AMI Avg (100-140% range)
Mayor Proposal Incomes Served	85% AMI Avg (65-105% range)	120% AMI Avg (100-140% range)

Received at CPC Hearing 2/23/17
 J. Binfitt

EXHIBIT E: PUBLIC COMMENT RECEIVED TO DATE

Received at CPO Hearing

2/23/17

J. Burtiff

2016 Salary AMI Calculator

	Hourly Wage	One-salary Avg Income	Two-salaries Avg Income	1-person HH AMI	3-person HH AMI	4-person HH AMI
Average SSI benefit	\$7.14	\$14,856	\$29,712	20%	31%	28%
Minimum wage, 2016-2017	\$13.00	\$27,040	\$54,080	36%	56%	50%
School Paraprofessional (UESF)	\$14.42	\$30,000	\$60,000	40%	62%	56%
Cashier (UFCW)	\$16.35	\$34,000	\$68,000	45%	70%	63%
Janitor (SEIU 87)	\$16.35	\$34,000	\$68,000	45%	70%	63%
Hotel Room Cleaner (HERE Local 2)	\$19.23	\$40,000	\$80,000	53%	83%	74%
Pharmacy Technician	\$22.12	\$46,000	\$92,000	61%	95%	85%
Construction Laborer (LIUNA)	\$23.08	\$48,000	\$96,000	64%	99%	89%
Apprentice Carpenter	\$30.00	\$62,400	\$124,800	83%	129%	116%
School Teacher (UESF)	\$30.29	\$63,000	\$126,000	84%	130%	117%
100% SF Area Median Income	\$36.25	\$75,400	\$150,800	100%	\$96,950	\$107,700
Very Low Income Workers and Fixed-Income, served by nonprofit housing						
Low- and Moderate Workforce Housing, served by Inclusionary Housing						

Sources:2016 AMI Income Limits: <http://sfmohcd.org/income-limits-and-rent-limits-below-market-rate-rental-units>2016 Janitor Salaries: <http://www1.salary.com/CA/San-Francisco/Janitor-Salary.html>2016 Hotel worker Salaries: <http://www.unitehere2.org/about/>2016 School Salaries: <http://www.sfexaminer.com/sfusd-teachers-call-salary-boost-amid-housing-crisis/>2017 salaries: <http://www.bizjournals.com/sanfrancisco/news/2017/01/05/san-francisco-jobs-with-the-largest-pay-gains-2016.html#g1>2017 minimum wage: [https://ballotpedia.org/City_of_San_Francisco_Minimum_Wage_Increase_Referred_Measure_Proposition_J_\(November_2014\)](https://ballotpedia.org/City_of_San_Francisco_Minimum_Wage_Increase_Referred_Measure_Proposition_J_(November_2014))2016 SSI: <http://www.pressreader.com/usa/san-francisco-chronicle/20161019/281646779669073>

	Rental	Condo
Pre-Prop C Sec 415 Inclusionary	55% AMI maximum	90% AMI maximum
PROP C Incomes Served	55% AMI Avg (40-70% range) 100% AMI Avg (80-120% range)	80% AMI Avg (60-100% range) 120% AMI Avg (100-140% range)
Mayor Proposal Incomes Served	85% AMI Avg (65-105% range)	120% AMI Avg (100-140% range)

EXHIBIT E: PUBLIC COMMENT RECEIVED TO DATE

Received at CPC Hearing

2/23/17

J. Bintliff

**Median Rent per Neighborhood Feb. 2015 compared with MOH 2015
Maximum Monthly Rent for BMR's**

MOH 2015 Maximum Monthly Rent, 1 Bedroom

100% AMI	\$1,834
120% AMI	\$2,445
150% AMI	\$3,009

Jumper Market Rate Rents, 1 Bedroom
Neighborhood

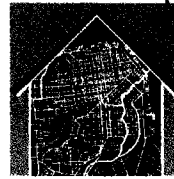
Russian Hill	\$3,830
South Beach	\$3,750
Mission Bay /	
Dogpatch	\$3,700
Financial District	\$3,700
SOMA	\$3,650
Mission Dolores	\$3,550
Pacific Heights	\$3,500
Mission	\$3,410
Cow Hollow	\$3,350
Marina	\$3,300
Telegraph Hill	\$3,300
Nob Hill	\$3,300
Lower Pac Hts	\$3,200
Civic Center	\$3,270
Castro	\$3,250
Noe Valley	\$3,200
Potrero Hill	\$3,290
Lower Haight	\$3,100
Hayes Valley	\$3,050
Buena Vista/	
Ashbury Heights	\$3,020
W. Twin Peaks	\$3,010
North Beach	\$3,000 (150AMI)
Alamo Square	\$2,980 (150AMI)
Downtown	\$2,980 (150AMI)
Laurel Heights /	
Presidio Heights	\$2,960 (150AMI)
Haight Ashbury	\$2,900 (150AMI)
NOPA	\$2,850 (150AMI)
Lone Mountain	\$2,820 (150AMI)
Bernal Heights	\$2,800 (150AMI)
Inner Sunset	\$2,800 (150AMI)
Presidio/Laurel Hts	\$2,780 (150AMI)
Glen Park	\$2,700 (150AMI)
Western Add.	\$2,550 (150AMI)
Outer Richmond	\$2,500 (150AMI)
Lakeshore	\$2,450 (120AMI)
Outer Sunset	\$2,250 (120AMI)
Inner Richmond	\$2,450 (120AMI)

Bayview	\$2,300 (120AMI)
Outer Miss/ Excelsior	\$1,800 (100AMI)

MOH: <http://sfmohcd.org/bmr-rent-and-income-maximums-inclusionary-housing-program>
Zumper: <http://sf.curbed.com/2015/3/3/9984916/mapping-the-median-rent-of-a-one-bedroom-in-san-francisco>



2/23/17



**COUNCIL OF COMMUNITY
HOUSING ORGANIZATIONS**

*The voice of San Francisco's
affordable housing movement*

February 22, 2016

SF Planning Commission

Re: Planning Code Sec 415 Inclusionary Housing

Commissioners,

We look forward to the discussion this Thursday regarding the updates to Inclusionary Zoning, per the voter-mandated Proposition C.

Since its inception, the Section 415 Inclusionary Housing program has produced over 2,000 units of affordable housing, with another 1,700 entitled Inclusionary units in the pipeline. These inclusionary units have historically been evenly split between rental and condo projects.

Inclusionary rentals currently serve a maximum median income at 55% AMI, which is equivalent to an individual earning \$40,000 per year, salaries close to those earned by the City's unionized workforce of grocery store cashiers, hotel workers, downtown office janitors, and school paraprofessionals. Inclusionary condos serve a maximum median income at 90% AMI, which is equivalent to an individual earning up to \$68,000 per year, salaries close to those earned by SFUSD school teachers.

Last June's Prop C sought not only to expand the Inclusionary Housing requirement, but also to expand the range of incomes served to add a new "middle income" tier, particularly for those two-income families who earned above the existing Inclusionary income limits. It did so in an additive way, without taking away from the existing requirements that were meant to serve critical members of the City's workforce. Before you today are two very different approaches as to how to approach our inclusionary policy to best serve San Francisco's workforce.

We wish to share with you several important questions that we believe should be addressed in considering these proposals.

1. **WHAT IS THE MAXIMUM FEASIBLE AMOUNT OF INCLUSIONARY?** The Controller's analysis predicts a maximum feasible inclusionary percentage at 18% for rentals and 20% for condos, using the same AMI levels proposed by Prop C. We agree with this analysis. However, if AMI levels are raised above those called for under Prop C, or if a developer takes a density bonus, these levels are far too low, as the Controller's analysis points out.
2. **HOW MUCH SHOULD INCLUSIONARY INCREASE OVER TIME?** The Controller recommends an annual increase of 0.5%, giving certainty and allowing land value to absorb increase cost. We agree with the fundamental framing of an increase over time based on the unearned profits of

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The Council of Community Housing Organizations (CCHO) is a coalition of 24 community-based housing developers, service providers and tenant advocates. We fight for funding and policies that shape urban development and empower low-income and working-class communities. The work of our member organizations has resulted in nearly 30,000 units of affordable housing, as well as thousands of construction and permanent jobs for city residents.

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landowners. However, based on the Controller's analysis, we agree with the minority opinion of the Technical Advisory Committee, which advocates for a maximum feasible amount of 0.75 increase per year.

3. **WHAT INCOME LEVELS AND JOBS SHOULD BE SERVED, AND SHOULD WE AVOID PITTING LOW-INCOME VS. MIDDLE-INCOME NEEDS?** The Controller's analysis assumes the low- and moderate-income split proposed by Prop C, with 60% low-income (55% AMI for rents/80% AMI for condos) and 40% middle-income (100% AMI for rents / 120% AMI for condos). This creates housing for the full range of residents caught in the "missing middle" of our low- and moderate-income workforce, 30% of whom pay more than half their income in rent, yet who earn too much for our tax-credit "very-low-income" housing. The Mayor's proposal, however, eliminates the low-income category, instead concentrating on only the higher moderate-income tier: increasing the income served to average 85% AMI for rentals and 120% AMI for condos, thus pitting higher-income workers against lower-income workers. A single worker would have to earn \$80,000 to afford an 85% AMI 1-bedroom rental. This is far more than many in the city's unionized workforce earn, such as grocery store or hotel workers, janitors, apprentice carpenters, or paraprofessionals in our school district, the jobs that would be left behind by the Mayor's proposal. Moreover, with condos averaging 120% AMI, most of those units would be unaffordable to the average teacher at 85% AMI. By raising the household income levels from what was assumed in the Controller's analysis, the Mayor's proposal would equate to an increased profit of about \$2 million to developers for a typical 100-unit development project with inclusionary rental units, and even more for a condo project. *We think an increase should be additional, as Prop C called for, NOT taking away from the low-income workforce served by inclusionary.* CCHO recommends maintaining the low- and moderate-income categories called for by Prop C, and further adjusting these by unit sizes (ie, smaller units, assuming single income households, at a lower AMI than larger units assuming two-income households, see #7 below).
4. **SHOULD THE DENSITY BONUS PRODUCE MORE UNITS, OR SIMPLY ALLOW DEVELOPERS TO FEE-OUT?** Changes in state law allow developers to take a 35% bonus (a four story building gets an extra floor, a six-story building gets two extra floors, a 300' building automatically becomes a 400' building, etc.) with NO EXTRA INCLUSIONARY. In other words, 18% of the base becomes 13% of the total building with bonus units. The Mayor's proposal recommends applying a housing fee to bonus units rather than equalizing the Inclusionary through increased on-site units. We support the approach of setting a base inclusionary amount that assumes all developers take the full bonus (ie, 18% becomes 25%). This approach would not only result in greater on-site units, but would incentivize developers to actually implement the density bonus in SF. Moreover, if the fee methodology is not increased (see #8 below), the Mayor's proposal will result in a substantial windfall for developers who choose to implement the State density bonus and simply fee-out on those extra units.
5. **SHOULD INCLUSIONARY INDEXING AND DENSITY BONUS AFFECT SMALLER DEVELOPMENTS?** Prop C did not raise the inclusionary amounts for small builders (under 25 units). CCHO recommends at minimum applying the increase over time AND the density bonus strategy to these buildings.
6. **SHOULD SENSITIVE NEIGHBORHOODS HAVE A HIGHER INCLUSIONARY?** We support the idea of an additional inclusionary percentage for neighborhoods facing gentrification and displacement. This is simply good policy for those neighborhoods bearing the brunt of gentrification caused by development pressures. Additionally, inclusionary units in these sensitive neighborhoods could serve lower income levels.

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7. **SHOULD INCLUSIONARY SERVE FAMILIES, OR SIMPLY FOLLOW THE MARKET-RATE FORMULA OF STUDIOS AND ONE-BEDROOMS?** The Mayor's proposal makes no mention of family units. CCHO recommends that all inclusionary units should be 40% two-bedroom and 20% 3-bedroom with minimum TCAC sizes, following the standards of typical affordable family developments. We believe the non-family units should not go above 90% AMI anywhere (this is equivalent to a single tenured SFUSD teacher income), while family units, assuming two incomes, can go higher (even up to 140% AMI, which is equivalent to two teacher incomes).
8. **SHOULD THE ORDINANCE MANDATE A METHOD FOR INCREASING FEES BY BUILDING TYPE?** The Controller's report recommended to "Revise the methodology for adjusting the fee so that it more closely tracks the cost of onsite development", but the Mayor's proposal only adjusts the percentage (ie, increases to 23% for rental projects fee-out) and does not include any change to the fee calculation itself, continuing to leave larger projects paying the same fee level as smaller projects. CCHO recommends changing the methodology for calculating in-lieu fees to be more realistically based on low-rise, mid-rise and high-rise building types – *otherwise highrise developers will continue to be incentivized to fee out.*
9. **SHOULD THE ORDINANCE HAVE A 'USE IT OR LOSE IT' CLAUSE TO DE-INCENTIVIZE THE SELLING OF ENTITLEMENTS?** CCHO recommends that projects be allowed a 24-month period after entitlement for vesting of the Inclusionary level/rate that was applicable to the project, after which the Inclusionary would be adjusted to whatever is current after that 24-month "use it or lose it" period. The Controller/Mayor proposal is silent on this issue. *Without this, Inclusionary "increase over time" creates incentive to get projects approved, and then simply create a market to resell the approvals without being compelled to actually build the project.*

We look forward to continued dialogue in developing a truly INCLUSIVE inclusionary housing policy that serves the needs of the broadest range of San Francisco's workforce, without leaving behind critical sectors.

Peter Cohen and Fernando Martí
Co-directors, Council of Community Housing Organizations

3/16/17

March 16, 2017

STATEMENT OF PRINCIPLES ON INCLUSIONARY HOUSING

We, the undersigned, join to express our common concerns over the proposed restructuring of San Francisco's inclusionary housing program. We are troubled by a proposal which promotes itself as expanding opportunities for 'middle income families,' but accomplishes that result only at the expense of those families with lower incomes. In our view, such an approach is fundamentally wrong. We should not be pitting low and middle income San Franciscans against each other in their access to affordable housing or any other essential service.

There is little doubt that this City continues to be in a prolonged and unsolved affordable housing crisis. Evictions and extraordinary rents are displacing thousands and destroying the diversity of San Francisco.

There is also no question that this crisis has now grown to impact many 'middle class' working households forced to compete for housing with upper income professionals from the entire region, particularly after tens of thousands of apartments and homes have been converted into short term vacation, student, or corporate rentals, or just sit idle as second or third homes for the wealthy.

But cutting back housing for lower income families is not the solution to these crises.

When households making six-figure incomes have a hard time finding housing, then it does not take a sophisticated economic study to conclude that restaurant workers, store clerks, classroom assistants, and others who make \$35,000 a year (with overtime) need even more help.

The voters of San Francisco have drawn the same conclusion. Last June, voters were presented with Proposition C, which raised the inclusionary housing standards for market rate developers. It also proposed setting aside 15% of new housing for lower income households and 10% for moderate income households. Proposition C was approved by a supermajority of the voters.

Then, last November, voters were presented with Proposition U, a proposal that would have overturned that Prop C measure and reset housing levels to benefit middle income households and to leave out lower income families. Voters overwhelmingly rejected Prop U.

The values embodied in these election results are clear: San Franciscans are not ready to give up on a truly inclusive affordable housing program, one that keeps its longstanding commitment since its inception in 2012 to serve lower income households, even as the program expands and evolves to serve middle income households.

Rather than cut back, the mandate should be to expand the total available resources. Thus, today the City must demand the highest number of affordable units as possible, not merely the 18% proposed in one proposal but 24% of all new projects that build higher or larger. We do need to be proactive in seeking solutions for middle income families, but this should be done carefully and be additive rather than pitting those people against their fellow San Franciscans in a zero-sum game.

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By expanding the total amount of inclusionary housing and continuously stepping up the program from here forward, we can expand opportunity for middle income households without cutting back housing opportunities for those with lower incomes. Such an approach rejects the politics of division and brings us together to solve our housing crisis.

AFFORDABLE HOUSING ALLIANCE

CALIFORNIA FACULTY ASSOCIATION-SF STATE UNIVERSITY

CALIFORNIA NURSES ASSOCIATION

CAUSA JUSTA :: JUST CAUSE

CHINATOWN COMMUNITY DEVELOPMENT CENTER

CHINESE PROGRESSIVE ASSOCIATION

COMMUNITY TENANTS ASSOCIATION

COUNCIL OF COMMUNITY HOUSING ORGANIZATIONS

DOLORES STREET COMMUNITY SERVICES

EPISCOPAL COMMUNITY SERVICES

EVICTON DEFENSE COLLABORATIVE

FAITH IN ACTION BAY AREA

HOMEOWNERSHIP SAN FRANCISCO

HOUSING RIGHTS COMMITTEE OF SAN FRANCISCO

JOBS WITH JUSTICE

MILK CLUB ACTION COMMITTEE

MISSION ECONOMIC DEVELOPMENT AGENCY

PODER

SAN FRANCISCO RISING

SAN FRANCISCO TENANTS UNION

SENIOR AND DISABILITY ACTION

SOUTH OF MARKET COMMUNITY ACTION NETWORK

SWORDS TO PLOWSHARES

UNITED EDUCATORS OF SAN FRANCISCO

VETERANS EQUITY CENTER



April 10, 2017

Mayor Ed Lee Room 200
Board of Supervisors Room 244
City Attorney Room 234
1 Dr. Carlton B. Goodlett Place,
San Francisco, CA 94102

Re: [File # 170208 Planning Code - Inclusionary Affordable Housing Fee and Dwelling Unit Mix Requirements](#) (Safai, Breed, Tang)
[File # 161351 Planning Code - Inclusionary Affordable Housing Fee and Requirements](#) (Kim, Peskin)

Dear San Francisco Supervisors & Mayor Ed Lee,

We are writing to express our **OPPOSITION** to both of the above captioned proposed inclusionary housing ordinances.

- Both proposed ordinances ignore the Technical Advisory Report.
- Both proposed ordinances will result in fewer homes being built, at all income affordability levels, than could otherwise be possible. They will therefore increase displacement and median rents in San Francisco.



- Both proposed ordinances are legally and theoretically justified by a [Residential Nexus Analysis](#) that is deeply flawed, rendering both proposed ordinances illegal under the Mitigation Fee Act.

WE PROPOSE the Board of Supervisors postpone consideration of the above captioned ordinances until

1. A new Technical Advisory Report is completed that assumes the Board of Supervisors is able to hold housing prices steady at 2017 levels
2. A report is completed indicating what policy changes are necessary in order to hold housing prices steady (or decreasing from) 2017 levels and
3. A new Residential Nexus Analysis is completed that corrects the logical fallacies and factual inaccuracies of the existing Residential Nexus Analysis.

Setting the Inclusionary percentage is an important decision. There is nothing gained from rushing into an ill-conceived plan. A poorly structured inclusionary ordinance will make our housing shortage worse. Currently, instead of making a commitment to solve the twin problems of high rent and displacement, both of these ordinances assume neither problem will go away. Both ordinances rely, for their feasibility, on SF's continued state of crisis.

Less than a year ago in June 2016, in a botched effort to stimulate the production of apartments affordable to lower income San Franciscans, Supervisor Peskin proposed, and SF voters passed, an increase to the City's Inclusionary requirements for new housing. The percent of developer subsidized, Below



Market Rate (BMR) units required in new housing developments doubled from 12% to 25%. As housing activists predicted, the change was a disaster. After June 6th (election day) the overall numbers of applications to build housing tanked.

In the previous year, before the new, higher BMR requirement, between June 2015 and the first week of September 2015, 3,000 housing units were proposed, including 350 BMR units. During the same time period in 2016 only 1,250 housing units were proposed - a drop of more than half from the prior year. The total number of BMR units dropped 20% to 289.

The subsidy for Below Market Rate apartments comes from rents of the Market Rate apartments. Although real rents in San Francisco are high, evidently, they are not high enough to support subsidizing a full quarter of apartments in most proposed projects. We see therefore the percent of required subsidized housing has to be chosen carefully. If it's too high (like 25%) then the purpose of the Inclusionary program is defeated: the overall amount of housing drops, and so does the amount of lower cost housing.

The last 15 years has seen rent growth unprecedented in modern San Francisco history and unequalled anywhere else in the United States. Adjusted for inflation, median rents in SF have doubled since 2001. Accompanying these extravagant price increases has been an unprecedented displacement crisis. 250,000 San



Franciscans moved away from SF from 2011 to 2016. That's 29% of San Francisco, gone.

Because most of the people being forced out of San Francisco are lower- or middle- income, only higher income residents remain or can move in to replace those who are displaced, and the median income in San Francisco has been rising. Ordinarily, rising median incomes are a cause for a city to celebrate, for us, they reflect our high rate of displacement.

The SF city Controller, convened a Technical Advisory Committee to determine the maximum percentage of BMR units the city can require in new development, without causing the drop in applications we have seen since June 2016. Their recommendations say that in 2017 the percentage should be between 14% & 18%, and should rise by 0.5% every year, for 15 years, until the percentage reaches 25%. In modeling the SF economy, the Technical Advisory Committee assumed that the next 15 years will be like the last 15 years - they assumed that real rents will double again, and increases in median income (that is, displacement) will continue unabated.

Rent increases and displacement are bad. The Board of Supervisors should be planning to halt and reverse these bad trends. You should not be planning to *fail* to stop or reverse those trends. **Therefore, we are asking for a new Technical**



Advisory Committee Report that assumes the Board of Supervisors is able to hold housing prices steady at 2017 levels.

The SF Board of Supervisors will not be able to halt the twin trends of displacement and rising housing costs without some guidance on what policies or programs would stabilize housing costs in San Francisco. **Therefore, we are asking for a report from the Office of the Controller indicating what policy changes are necessary in order to hold housing prices steady at (or decreasing from) 2017 levels.**

The [Residential Nexus Analysis](#) doesn't show a nexus between new building and the increased need for affordable housing. In order for there to be a nexus between new building and a need for new affordable housing, the study would need to show that the need for new affordable housing would not occur without the new building.

Because the Nexus Analysis relies on the incomes of the residents of new housing (assumed to be high income) to provide the causal link between the new housing and the new need for cheaper housing, the nexus study has to show that the new high income residents wouldn't have moved here, but for the new housing, *and* that the high income residents aren't already spending money in San Francisco. But it does not. This renders the [Residential Nexus Analysis](#)



invalid and will leave any Inclusionary Ordinance based on it vulnerable to legal challenge.

Berkeley's Inclusionary Program is being challenged right now on the grounds that their Residential Nexus Analysis fails to show a connection between new market rate housing and a new need for below market rate housing. [Here](#) is a copy of the petition filed on February 24, 2017. [Here](#) is a longer explanation detailing the flaws of San Francisco's Residential Nexus Analysis, step by step.

High housing costs and displacement are serious problems in San Francisco. Like any social problem, it is essential for us to have accurate information about the causes and mechanisms of the problem if we truly intend to solve it. There is no reason San Francisco should rely on a Residential Nexus Analysis that is inaccurate, contains flawed reasoning and exposes San Francisco to legal challenge. **Therefore, we are asking for a new Residential Nexus Analysis to be completed that avoids the logical fallacies and factual inaccuracies of the existing Residential Nexus Analysis.**

Please postpone consideration of any permanent Inclusionary Ordinance until new studies can be completed. The people of San Francisco, the rest of the Bay Area and the rest of the United States are relying on you, members of the Board of Supervisors, to take this problem seriously, make serious attempts to control



housing costs, reduce displacement and increase access to our City of opportunity and acceptance.

The current inclusionary rate of 25% is already demonstrated to be catastrophic to the production of housing. While this needs to be changed, it proves how damaging getting this figure wrong can be. Please make an interim rule until a more objective process that does not endanger housing production can be established.

Signed,

Sonja Trauss

Laura Clark

Brian Hanlon

YIMBY Party

Cc: Todd David, San Francisco Housing Action Coalition
Sarah Dennis Phillips, OEWD
Sophie Hayward, MOHCD
Kearstin Dischinger, Planning Department

