21 July 2020

Public Lands for Public Good
Defend City College Alliance

Re: **Balboa Reservoir Development Proposal**
Legislative Files **200422, 200423, 200635, 200740**

Dear Public Lands for Public Good and Defend City College Alliance:

Please accept this letter of my analysis as to why the Board of Supervisors should reject the Balboa Reservoir Project as proposed when the above referenced legislative files relating to this project come to the Board for a vote. I submit this letter as a professional with years of experience in many different facets of real estate development, primarily as a developer of affordable housing in San Francisco (resume attached).

Introduction

The Balboa Reservoir presents a unique opportunity for the people of this City. It is a large (16.4 acres), publicly owned site (SF Public Utilities Commission), adjacent to the main campus of City College of San Francisco and in close proximity to a major regional transit station. These are more than sixteen acres of blank canvas on which could be built something visionary. Instead the project that has been presented to the Board of Supervisors privatizes our public resources and lines a developer's pockets.

The proposed project describes 1,100 total units of which half (550 units) will be "below market rate" (affordable). What follows is a proposal for a project that would ensure that this public land is developed as 100% affordable housing.

One Hundred Percent Affordable Housing at the Balboa Reservoir

Affordable housing developers typically pay market price for land and then have to pay for their development to tie into existing infrastructure such as water, electricity, sewer, etc. This site has none of the typically available infrastructure to tie into, so building that infrastructure is a cost unique to this development. As we'll see, however, the narrative that these costs are a barrier to 100% affordable housing is false.

A typical affordable housing development budget assumes paying market value for the land. In this case, the PUC is required to sell the land for its full market value, unless the Board of Supervisors passes a resolution saying that the site should be sold for less than the market value in order to achieve a significant public benefit. There is a model for this type of transaction at 1100 Ocean where the MTA (another enterprise department) sold that site to MOHCD at a below market price in order to facilitate 100% affordable housing. This Balboa Reservoir site should follow that same template. This site should be sold to MOHCD for a below market price (as close to zero as possible) so the site stays in public ownership in order to facilitate 100% affordable housing.

Assuming the land is sold at or close to no cost to the affordable housing developer, they still have to deal with the infrastructure costs which are of course much higher than for a typical infill site. Thankfully, there are significant grant sources available from the State that can cover most of those costs. If the only State grant comes from the Infill Infrastructure Grant Program and is limited to $30M, this would cover all but $18M of the cost of the infrastructure which is estimated to be $48M over 3 phases. In order to cover those costs, if the project was 100% affordable housing, and the affordable housing developer paid $18M to cover those infrastructure costs instead of paying for the land, this would still be a bargain at $33,000/ unit for land associated costs (assuming 550 units).

Once the land and infrastructure have been paid for, the remaining financial challenge is to fund the construction of the affordable housing. Based on the Berkson Fiscal Feasibility Report (attached), the affordable housing construction should cost $348,000 per unit. Assuming that there will be some inflation in materials and labor costs, let's use $400,000 per unit for the purpose of this analysis. Since MOHCD typically provides roughly 35% of the total project cost, this would mean roughly $77M coming from MOHCD to pay for their portion of 550 units. At $140,000 per unit, this represents a bargain for the City because of the economy of scale and the low cost for land and infrastructure. If the City is not able to come up with $77M all at once, then the project could be built in 2 phases. This would mean $38.5M of MOHCD funding for each of 2 phases. If that's still too ambitious, it could be split into 3 phases of $25.7M each.

The remainder of the funding for each phase would come from a combination of LIHTC (low income housing tax credits), State grants, and other affordable housing capital subsidies for a total of about 45% of the project cost. The final 20% would come from a bank loan or through the sale of tax exempt bonds (if using LIHTCs from the non-competitive pool). This is a typical leveraging structure that MOHCD expects when it invests in affordable housing.

100% affordable housing is both visionary and financially feasible- using City resources to meet a critical need for the long term viability of our City. Unfortunately, however, the City has chosen to present for approval a scheme for privatizing this site. This is a strategy that benefits the for-profit developer greatly, but creates financial and policy problems for both the City and the people who might live at this proposed development.

The Development Agreement Should Not Be Approved

Under the deal as proposed, the City is not only selling more than sixteen acres of public land to a private developer at a heavily discounted rate ($11.4M), the Development Agreement says that the developer has no obligation to build anything at any time. Not only does the developer have no obligation to develop anything, but they have the ability to sell off any portion of the property. If the developer sells there is no requirement that they sell at a discounted amount. Most likely, if the current developer sells any portion of this development, the new developer would purchase at full market rate and might go back to the City to renegotiate this deal due to the different circumstances.

Rather than the City retaining ownership of the land and making sure that the housing gets built, and that the housing that is built is 100% affordable, under the proposed deal, the City literally gets a guaranty of nothing, while the developer gets a guaranty of future profits- either from the market rate housing they develop, or from selling the properties that have had a step up in market value because of the actions of the Board of Supervisors to enable this deal. The City potentially loses big, but the developer has no risk whatsoever and only stands to profit.

Additional Policy and Financial Concerns

If the developer does decide to proceed with building the housing that is outlined in the proposed project, the result will be a lesser public benefit than you think you are getting, which raises another level of financial and policy related problems.

This development has both rental and ownership components. The obligations for providing the affordable rental units seem fairly clear, On the ownership side, however, the developer has a few different options- one of which is not to provide the affordable units at all, but to pay a fee to the City in lieu of building any affordable ownership units. Therefore, we may get 530 affordable units at this site instead of 550.

Making matters worse, the affordable units don't even seem to meet the definition of "affordable" as defined in the City's "inclusionary" program. The inclusionary program sets "low income" rents as being affordable to households making 55% of AMI. This project is defining "low income" as 60% of AMI which is 5% more expensive. Low income is presented as a range of incomes, but the required average is 60%, not 55% of AMI.

The proposed project also has affordable units for "moderate income" households. The inclusionary program sets "moderate income" rents as being affordable to households earning 80% of AMI. This project is defining "moderate income" as 100% of AMI which is 20% more expensive. Moderate income is presented as a range of incomes, but the average is 100%, not 80% of AMI. Not only are these "low" and "moderate" income units more expensive than what are typically provided by developers providing "inclusionary" or "below market rate" units, but they set a bad policy precedent by redefining - or at least complicating- the definitions of "low income" and "moderate income."

Perhaps most insidious of all is the segregation and class divide that this project creates. Consider that the "affordable" units are all rental while there is a chance that there will be no affordable ownership units. The affordable units that are provided will all be built in buildings that are separate from the market rate units. In a typical market rate development with "inclusionary" units, those inclusionary (affordable) units are distributed throughout the building. They are literally "included" into the market rate development. What is proposed for this site should either be considered as "off site" inclusionary housing which would trigger a 30% requirement, or it should be viewed as a development with what is typically called a "poor door" situation where the upper income market rate residents go in through one door and the residents in the affordable units go in through a separate door. Inclusionary legislation is intentionally crafted to ensure that developers are not able to create these "poor door" conditions.

To make the segregation and class divide issues even worse, the open space at the center of the development is a privately owned public open space (POPOS). The owner and manager of this POPOS is the group of homeowners who live in the ownership units. What people do in the open space and at what hours are determined by the homeowners association for everyone who might live or visit.

For those who might be concerned about a 100% affordable housing development presenting a similar problem of segregation, this would be fallacy. A typical affordable housing development funded with Low Income Housing Tax Credits accommodates a range of residents' incomes. Large scale affordable housing developments are successful under nonprofit management and MOHCD oversight because of the high quality of the housing and the significant resources that are committed. These households like the ones at 1100 Ocean have a range of incomes and live in safe, high quality housing with dignity. Once residents move in, these developments invariably fit right in with the social and aesthetic fabric of the neighborhoods in which they are located.

The fact that this project has come so far through the approval in this form is beyond comprehension. The scheme of privatization without accountability, the confusing of definitions of what is "affordable" to guarantee higher levels of cash flow for the developer, and the segregation of wealthy and non-wealthy and of owner versus renter all add up to a misuse of public resources and of the public trust. As such my recommendation is to urge the Board of Supervisors to reject this development proposal and commit to a new development proposal that ensures 100% affordable housing is built at the Balboa Reservoir.

Sincerely,

Joseph Smooke
Consultant

366 10th Avenue
San Francisco, CA 94118
415-831-9177
josephsmooke@gmail.com

Joseph Smooke

[people. power. media]
Co-Founder, CEO, Producer, Photographer, Videographer
July 2012 to Present
Co-founded this nonprofit media organization that produces video news features and analyses about communities impacting public policy with a focus on housing and land use. Produced a six-part animation, "Priced Out" which has been featured in film festivals in San Francisco, Los Angeles, Chicago and New York City, and in workshops to more than 1,200 people.

Housing Rights Committee of San Francisco
Westside Program Director, 2015 - 2019
Led the expansion of Housing Rights Committee's community organizing and tenant counseling to the Richmond and Sunset Districts.

Supervisor David Campos, District 9
Legislative Aide, 2013, 2014, 2015
Worked three temporary terms of employment as an Aide to Supervisor Campos, focusing primarily on housing and land use issues.

The Philippine Reporter
Photographer and Writer, 2011 - 2014
Worked as staff photographer and writer for this newspaper in Toronto, Canada.

Supervisor Eric Mar, District 1
Legislative Aide, 2011
Staffed Supervisor Mar primarily for his work as Chair of the Land Use Committee.

Bernal Heights Neighborhood Center
Executive Director, 2005 - 2011
Housing Director, 1997 - 2005
Promoted to Executive Director of this multi-service community based nonprofit organization after leading its housing development and asset management work. Led the housing program's growth from small scale developments to being a citywide developer. Created the Small Sites Program and developed the first prototype small sites acquisition project. Also led the organization to become involved in land use planning.

Innovative Housing for Community
Housing Development Project Manager, 1993 - 1996
Developed and managed housing throughout San Francisco, Sonoma, Marin, San Mateo and Santa Clara Counties for this nonprofit provider of affordable, supportive, shared housing. Created the first affordable housing "green building" program in the Bay Area.

Skidmore Owings and Merrill
Job Captain, Architectural Designer
Los Angeles Office, 1988 - 1992
San Francisco Office, 1992 - 1993
Worked on all phases and aspects of large scale commercial and institutional buildings throughout the US and in Taiwan, including the Southern California Gas Company Tower and the Virginia State Library and Archives. Also worked on a large scale urban planning project in Changchun, China.

Awards and Recognitions
Outstanding Community Service, Coalition for San Francisco Neighborhoods, 2017

Dolores St Community Services Open Palm Award for BHNC, 2008

Central American Resource Center (CARECEN), 2007

Bank of America, Neighborhood Excellence Initiative, Local Hero Award, 2004

Education
University of California at Berkeley
Bachelor of Arts in Architecture, High Honors, 1988
Alpha Rho Chi, Departmental Award for Professional Promise

Boards of Directors and Active Affiliations
South of Market Community Action Network (SOMCAN), 2010 - Present
Chair of SOMCAN's Board

San Francisco Antidisplacement Coalition, 2016 - Present

Richmond District Rising, 2017 - Present
Steering Committee and Housing Committee

Westside Tenants Association, 2019 - Present

Community Housing Partnership, 2000 - 2006
Member, Board of Directors