

MEMORANDUM

October 17, 2013

TO: MEMBERS, PORT COMMISSION
Hon. Doreen Woo Ho, President
Hon. Kimberly Brandon, Vice President
Hon. Willie Adams
Hon. Leslie Katz
Hon. Mel Murphy

FROM: Monique Moyer
Executive Director

SUBJECT: Informational Presentation on a Memorandum of Understanding with the San Francisco Mayor's Office of Housing and Community Development regarding affordable housing development at Seawall Lot 322-1 (located at Broadway and Front Streets)

Director's Recommendation: Informational Only – No Action Required

EXECUTIVE SUMMARY

The purpose of this memorandum is to inform the Port Commission regarding a proposed collaboration between the Mayor's Office of Housing and Community Development (Housing Office) and the Port to pursue the feasibility of developing a third affordable housing project on SWL 322-1 (Site). State Assembly Bill 2649 permits the lifting of public trust use restrictions from the Site to allow development of affordable housing. San Francisco Board of Supervisors' Ordinance No. 232-12 authorizes the Port to lease the Site and receive Jobs-Housing Linkage Program credits (Jobs/Housing Credits) for its fair market value. Port and the Housing Office are now at a juncture where they need to pursue the feasibility of affordable housing on the Site. Port and Housing Office staffs have initiated discussions on a Memorandum of Understanding (MOU) to allow the Housing Office to secure a non-profit affordable housing development partner.

Port staff began public outreach on this concept in 2011 and presented the concept jointly with Housing Office staff at the August 28, 2013 meeting of the Northeastern Waterfront Advisory Group (NEWAG). Staff will be presenting this proposal to the Barbary Coast Neighborhood Association (BCNA) and Telegraph Hill Dwellers (THD)

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before requesting Port Commission approval of the MOU. More details about the MOU and next steps are discussed in the remainder of this Staff Memorandum.

BACKGROUND

The Port of San Francisco owns and manages 7.5 miles of bayfront lands in trust for the State of California. Use of these Trust lands excludes the development of housing. Nevertheless, in 1987, the California State Legislature approved two Port sites in the South Beach neighborhood for affordable housing use which led to the development of Delancey Street and Steamboat Point (Bridge Housing). These were developed under a master lease with the former San Francisco Redevelopment Agency.

The Port faces many challenges in developing its properties to their highest and best use, including Pier 70. These challenges include expensive piles to support buildings on tidelands, high historic building rehabilitation costs, high building costs in an historic district, environmental remediation cost, complex regulatory compliance cost including development impact fees, and shoreline park/open space (public access) cost. In November 2011, staff informed the Port Commission about staff's effort to pursue strategies to address these challenges facing Pier 70. One proposed strategy involves leasing Port inland sites in the Northeastern Waterfront, no longer needed for trust purposes, for affordable housing use and using the funds generated from their dispositions to offset the high costs of redeveloping Pier 70. Precedents for affordable housing on the Port's property include the Delancey Street mixed-use development on SWL 332 consisting of 177 residential units and ground floor commercial space; and the Steamboat Point mixed-use development on SWL 333 consisting of 106 residential units and ground floor commercial space.

During the November 2011 meeting, staff also discussed options for meeting the City's affordable housing requirements, particularly for the anticipated commercial developments in Pier 70 that will have to pay significant affordable housing impact fees per City regulations. These Jobs-Housing Linkage Program impact fees are charged to offset the new demand for affordable housing generated by new commercial developments. With between 2,200,000 to 3,000,000 square feet of commercial development proposed at Pier 70, the Port will have to contribute millions of dollars in affordable Jobs/Housing impact fees.

State Senate Bill 815 (2007, Migden) authorized, among other things, the Port to lease certain seawall lots in the central waterfront (most notably SWL 337 and SWL 330) for non-trust purposes including housing, for a period of up to 75 years at fair market value to generate revenues for the Port's Harbor Fund. Since the Site was not included in Senate Bill 815 Port staff, after consulting with the Port Commission, pursued legislation which led to the adoption of State Assembly Bill 2649 (2012, Ammiano) which added the Site to SB 815 seawall lots that could be leased for non-trust uses and authorized the Port to lease it for an affordable housing development at fair market value subject to the California State Lands Commission making findings that this lot is no longer useful for trust purposes.

Port Staff also gained San Francisco Board of Supervisors adoption of Ordinance No. 232-12 which provides for the Port to receive fair market value if it enters into below-market leases with the Housing Office for affordable housing on the Port's seawall lots identified as no longer useful for trust purposes. The Board also authorizes, among other things, the Port and the Housing Office to enter into an MOU providing for the Port to receive Jobs/Housing credits equal to the difference in the value of a Port below-market lease to the Housing Office and the fair market value of the leased land.

These two pieces of legislation create the authority to develop affordable housing on SWL 322-1 through the Housing Office and for the Port to receive Jobs/Housing Credits in the amount of the Site's fair market value. These Jobs/Housing Credits would offset Jobs-Housing Linkage Program impact fees to be charged against commercial developments in Pier 70. The specific project(s) and budget line-items benefiting from this offset will be determined through negotiations with Port's private development partners at the appropriate time. This mechanism allows the development of a long vacant parking lot at SWL 322-1 into a new structure that will help address one of the City's pressing needs - affordable housing. Additionally, it will provide a Jobs/Housing Credit that will help address the feasibility gap at Pier 70 developments.

SITE INFORMATION AND ANALYSIS

The Site is bounded by Broadway, Front and Vallejo Streets and buildings to the east as shown in Exhibit "A" attached. The Site is a paved, flat, rectangular land parcel, approximately 37,810 square feet in area; and it is currently being used as surface parking leased on a month-to-month basis to Priority Parking. The Site is approximately 500 feet from the shoreline and under current estimates of sea level rise would not be affected in 2050 and only small portions of the site identified as becoming inundated under current estimates of 2100 sea levels. Anticipated impacts of climate change will be addressed during site and building design phases.

Current zoning for the Site is C-2 (Community Business), which allows residential as a permitted use; ground floor retail and podium parking may be appropriate companion uses subject to feedback during the entitlement process. The Site is in the City's Northeast Waterfront Historic District and a 65-foot height limit is set for the Site. Given the Site's development potential, and its location upland, away from the water, it appears to offer the greatest affordable housing development opportunity among the Port's seawall lots in the northeastern waterfront. Staff has requested the City's Director of Real Estate procure an appraisal to determine the Site's fair market value.

Currently the Site generates about \$570,000 annually or \$47,000 per month, in rental revenue to the Port. Because of the significance of the revenue to the Port's Harbor Fund, Port Staff has explored how the proposed development can continue to generate a revenue stream. One way to achieve this aim is to include public parking as a ground floor use in the project. The Port should consider paying for the incremental construction cost that podium parking would add to the overall project development cost. Including public parking in the project will accommodate nearby businesses that currently rely on the 151 self-park spaces (or 225 valet parking spaces) available at the Site.

PROPOSED MOU

Port and Housing Office staffs have been working together to implement the provisions of the above-noted legislations. The Housing Office will manage a solicitation process to secure an affordable housing developer and lead development negotiations with the selected developer. During the negotiation period, Port staff will work with the Housing Office and the developer to test the feasibility of including public parking in the project. The Housing Office and the selected developer are responsible for funding the project's predevelopment, construction, and operation phases, except for the incremental construction cost of the public parking garage if Port determines, at its sole discretion, that the garage is feasible. Based on the Board legislation, neither the Housing Office nor the selected developer shall pay more than \$1 in rent per year; instead, the Port will receive Jobs/Housing Credits in an amount equal to the site's value as compensation for this use. The proposed MOU is structured to incorporate the following concepts:

1. The Term of MOU. A three-year term is proposed because entitlement and project approval usually take more than two years. Any extension of the term is subject to additional Port Commission approval. It is proposed that the Port's or the Housing Office's Executive Directors be authorized to extend any of the benchmark dates set for developer's performance schedule during the term without further Port Commission action. Staff will provide the Port Commission with periodic updates about the MOU and project progress.
2. Project Description: The proposed project will be a new affordable housing building with apartments located above a parking podium. The podium level will include, among other things, public parking and retail space with the amount of public parking and retail space determined by the design and entitlement requirements of the project. The type of affordable housing units and the level of affordability are to be determined by the Housing Office and the developer with appropriate public input.
3. Basic Deal Structure: The Housing Office will secure a developer who will enter into a 75-year lease with the Port to build the project. The Housing Office and developer will pay the Site's fair market value; however, instead of paying with cash, the Housing Office will provide the Port with a Jobs/Housing Credit equal to the Site's appraised value less the prorated Site value allocated to the garage and the garage's incremental construction cost if the garage is deemed feasible. The Housing Office will enter into a separate MOU with the Port governing the accounting of the Jobs/Housing Credits awarded. The Housing Office and the developer are responsible for all entitlement and project approvals including stakeholder outreach and California Environmental Quality Act ("CEQA") review. The Port will provide no project funding except for the limited cost of seeking approval from the California State Lands Commission. The lease will include a nominal annual rent of \$1; the Port will receive the Site's fair market value through a Jobs/Housing Credit.
4. Approval Process and Entitlements: The project is subject to a process of thorough public review and input and all necessary and appropriate approvals. These include environmental review under CEQA and required discretionary approvals by applicable government bodies after public hearings and environmental review. Nothing

in the MOU would commit the Port, the Housing Office, or the City, or any other public agency to approve or implement the project until its CEQA review is completed.

5. Housing Office's Role and Responsibilities: The Housing Office will solicit and select the developer; address the project's overall financing needs, and its potential funding sources; cover developer solicitation cost; negotiate development transaction documents; and plan and manage project delivery, including the project timeline for attaining performance benchmarks. The Housing Office must follow the Port and City's public offering process that typically requires competitive bidding, ample public notice to make the public aware of the offering opportunity, local business participation requirements, public hearings, etc.

6. Port's Role and Responsibilities: The Port will assist the Housing Office in its negotiations with the developer regarding the garage and lease terms and in seeking stakeholders' support and State Lands Commission's approval.

COMMUNITY OUTREACH

In 2011, when pursuing State and Board legislation, Port staff presented to the Port Commission, Northeast Waterfront Advisory Group (NEWAG) and Barbary Coast Neighborhood Association (BCNA) the concept of affordable housing on the Site developed in conjunction with the Housing Office and a nonprofit developer. After approval of the enabling legislation and consultation with the Housing Office staff, Port staff commenced public outreach. On August 28, 2013, Port and the Housing Office staff presented the proposed MOU to NEWAG, and its members present at the meeting expressed support for the MOU. The BCNA and the Telegraph Hill Dwellers (THD) will hold a joint meeting in November 2013 for the Housing Office and Port staff to present the project concept to neighbors and stakeholders. If the project moves forward, the developer and the Housing Office staff will convene public meeting for neighbors, BCNA and THD as the project evolves as part of a community review common to all Housing Office projects.

NEXT STEPS

Subject to Port Commission direction, Port and the Housing Office will continue public outreach and thereafter return to the Port Commission for review and approval of the proposed MOU.

The MOU anticipates completion of a solicitation process within one year followed by a two-year exclusive negotiation period. This period will cover the design review, CEQA review, State Lands Commission and other regulatory reviews with opportunities for stakeholders' input. The Port Commission will receive periodic updates during the entitlement period. Following project entitlements, staff will present the refined development proposal and the proposed ground lease to the Port Commission for its consideration and approval. Escrow closing and construction would occur immediately thereafter.

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Through: Jonathan Stern, Assistant Deputy Director
Waterfront Development

For: Byron Rhett, Deputy Director
Planning and Development

Attachment:
Exhibit "A" Site Map