



November 21, 2019

John Arntz
Director of Elections
Department of Elections
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 48
San Francisco, CA 94102

VIA INTERDEPARTMENTAL MAIL AND
VIA ELECTRONIC MAIL TO: barbara.carr@sfgov.org

Re: Voter Approval of “Limits on Office Development” – March 2020 Ballot

Dear Director Arntz:

Thank you for the opportunity to review the “Limits on Office Development” initiative measure (“Measure” that will appear on the March 3, 2020 ballot. As you requested, and in anticipation of the Ballot Simplification Committee’s (“BSC” preparation of a fair and impartial summary of the Measure, the Planning Department (“Department” provides this objective analysis of the Measure’s impact on current law and current Department and City practices along with technical observations intended to inform the BSC’s deliberations.

The Way It Is Now:

The Office Development Annual Limit Program (“Program” became effective in 1985 with the adoption of the Downtown Plan Amendments to the Planning Code (Sections 320–325 and was subsequently amended by Propositions M (1986 and C (1987. The Program defines and regulates the allocation of any office development project that exceeds 25,000 square feet in area. However, pursuant to Proposition O (2016, office development within the Hunters Point Shipyard Phase 2 and Candlestick Point areas is not subject to this Program.

A total of 950,000 gsf of office development potential becomes available for allocation in each approval period, which begins on October 17th every year. Of the total new available space, 75,000 gsf is reserved for projects with between 25,000 and 49,999 square feet of office space (“Small Cap” , while the remaining 875,000 square feet is available for projects with at least 50,000 square feet of office space (“Large Cap” . Office space not allocated in a given year is carried over to subsequent years.

The Program requires the Planning Commission to consider seven specific criteria for projects seeking

an office allocation. These criteria include 1 how the proposal balances economic growth and housing, transportation, and public services, 2 contributions and effects on the General Plan, 3 the quality of design, 4 suitability of the location, 5 anticipated uses of the project, 6 proposed occupancy (single vs multiple tenants, and 7 the use of Transferable Development Rights (“TD R”). Additionally, the Planning Commission may not consider a project’s payments to City transit or housing funds.

Over the last ten years, annual office allocations from the Large Cap have ranged from approximately 86,000 square feet in a year (2017-18) to up to 3.6 million square feet in a year (2012-13). Office space for the Federal government, State government, within Port of San Francisco jurisdiction, and within certain redevelopment areas do not require Planning Commission allocations. However, such office developments must still be deducted from the Program.

The Program currently includes no requirements or stated considerations related to the direct provision of housing (market rate or affordable by a project proposal), or to the City’s production of housing relative to the Regional Housing Need Allocation (RHNA) goals adopted by the Association of Bay Area Governments.

The Way It Would Be:

As described in detail below, the Measure directly ties the amount of office space available to be allocated from the Program to the production of affordable housing within the City, both city-wide and within the Central South of Market (SoMa Special Use District (SUD). It also provides specific provisions for projects, including those within the Central SoMa SUD, to be allocated office space beyond typical Program limits if those projects meet specific criteria related to the production of affordable housing and/or other community benefits, while accounting for such allocations over time.

The following is a more detailed analysis of the Measure:

1. **Definitions.** The Measure creates several new definitions necessary to implement the amendments to the Program.
2. **Ratio of Large Cap Allocations to Housing Production.** The Measure permanently reduces the 850,000 square foot annual allotment to the Large Cap each year, beginning October 17, 2020, by the percentage of the City’s RHNA affordable housing goals not met. More specifically:

One-Year Period Beginning October 17, 2020: The 875,000 square foot Large Cap allotment is permanently reduced by a percentage equal to the percentage of New Affordable Housing Units Produced (as newly defined in the City during the five calendar years of 2015-2019) is less than the combined total of five years of the Annual RHNA Affordable Housing Goal. Because the 2019 calendar year is not complete, that exact percentage cannot be calculated at this time. However, for example, if the City produces only 50 percent of the affordable housing compared to the adopted RHNA Affordable Housing Goal, then the

Large Cap will only receive a 437,500 square foot allotment on October 17, 2020. The remaining 437,500 square feet not allotted to the Large Cap will be permanently lost.

Future One-Year Periods, Beginning October 17, 2021: The 850,000 square foot Large Cap allotment is permanently reduced by a percentage equal to the percentage of New Affordable Housing Units Produced in the City during the single complete calendar year prior to the year in which the one-year approval period begins. For example, if the City produces only 50 percent of the affordable housing compared to the adopted RHNA Affordable Housing Goal for the calendar year 2020, then the Large Cap will only receive a 437,500 square foot allotment on October 17, 2021. The remaining 437,500 square feet not allotted to the Large Cap will be permanently lost.

Recent RHNA Goals and Production. RHNA goals are set for an 8-year period, and not on an annual basis. The Measure uses the existing RHNA goal set for years 2015-2023 – 16,333 units – to define the annual goal. In order to provide additional context, the table below provides RHNA affordable housing goals for the City and production of such housing for calendar years 2015-2018:

Year	Annualized RHNA Goal	Affordable Units Produced	Percentage
2015	2,042	721	35.3
2016	2,042	1,096	53.7
2017	2,042	1,163	57
2018	2,042	1,414	69.2

- Office Limits within the Central South of Market (SoMa Plan Area and Special Use District (SUD.** The geographic boundaries of the Central SoMa Plan Area and SUD are the same. The Central SoMa Plan was adopted by the Board of Supervisors in December 2018. It is an area plan and associated rezoning that followed an 8-year planning process. It increased zoning allowances for office, housing, and other uses in an area close the new Central Subway and Caltrain station. The rezoning included a new set of impact fees and other development requirements that will generate over \$2 billion in public benefits, including affordable housing, parks, and transit. There are 8 “Key Sites” identified in the Plan that represent most of the plan’s development potential. The Plan provides flexibility on certain development standards in exchange for provision of certain public benefits on these Key Sites, such as provision of on-site affordable housing, reduced-rent PDR space, public recreational facilities, and other items. The total expected office potential on these Sites is approximately 6 million square feet.

The Measure caps how much Large Cap office space may be allocated within the Central SoMa SUD until a minimum number of “housing units” are produced within the larger SoMa neighborhood, pursuant to the boundaries established in the Planning Department’s Neighborhood Boundaries Map. More specifically, beginning January 1, 2019, no more than six million square feet of Large Cap office space may be allocated within the SUD until at least 15,000 new housing units are

produced within the larger SoMa neighborhood. All office space allocated to projects of less than 50,000 square feet of office space (i.e. Small Cap are exempted from this calculation entirely).

In order to make the calculations required to implement this limit on Large Cap allocations within the SUD, the Measure requires the Planning Department to publish the number of housing units produced on October 17 of each year going forward.

As of January 1, 2019, the Planning Commission has allocated approximately 2.9 million square feet of Large Cap office space to projects within the Central SoMa SUD. Additionally, applications are currently on file with the Planning Department for projects within the Central SoMa SUD proposing up to approximately 2.4 million additional square feet of office space.

4. **Central SoMa Incentive Reserve.** The Measure creates a 1.7 million square foot reserve of office space available for allocation only to Large Cap projects within the Central SoMa SUD. This reserve is entirely separate from the standard Large Cap availability. As such, the square footage within the Central SoMa Incentive Reserve may be allocated to a Large Cap project within the SUD even if there is no office space available within the standard Large Cap. However, the reserve may not be used to allocate more than the six million square foot cap described in No. 3 above until the required amount of housing is produced.

However, a project in the SUD may only make use of this new reserve if it meets **all** of the following criteria:

- a) Its Preliminary Project Assessment application was submitted prior to September 11, 2019;
- b) The project contains at least 50,000 square feet of office space;
- c) The amount of proposed office space exceeds what is otherwise available for allocation from the standard Large Cap;
- d) Any prior or current phase of the project meets **any** of the following criteria:
 - i. The project dedicates a parcel of land within SoMa to the City to develop affordable housing, and that parcel is at least 10,000 square feet;
 - ii. The project includes at least 10,000 square feet of “community arts PDR” space or “neighborhood-serving retail” space that will be leased for no higher than 60% of the comparable market rate for a period of 30 years; or
 - iii. The project constructs or funds a new or replacement City public safety facility within SoMa of at least 10,000 square feet

For example, if a 200,000 square foot office project in the SUD meets one of the required criteria, but there is only 100,000 square feet available in the standard Large Cap, the Planning Commission may approve the project by allocating 100,000 from the standard Large Cap and the remaining 100,000 square feet from the Central SoMa Incentive Reserve.

5. **Office Jobs/Affordable Housing Balance Incentive Reserve.** While the Central SoMa Incentive Reserve creates a discrete amount of office space that may be allocated separate from the standard

Large Cap, this provision does not create a similarly discrete pool of office space. Instead, it provides an **exemption** from the limit within the standard Large Cap that may be applied to office projects anywhere in the City that fully meet **all** the following criteria:

- a) The office project will also produce affordable housing to account for 100 percent of such housing needed to house future employees of the office space, pursuant to the “City’s Affordable Housing Demand Ratio.” This Measure defines this ratio to be 809 units affordable to households with household income no greater than 120 percent of the Area Median Income (AMI) per one million square feet of new office space. This ratio was originally established in the City’s May 2019 Jobs Housing Nexus Analysis, and the measure requires the ratio to be updated at least every five years.

The housing produced pursuant to this criterion may either be located on-site or located off-site, but within a Community of Concern as designated by the Board of Supervisors. Additionally, if such project includes housing that is subject to the City’s Inclusionary Housing Program, and the project elects to satisfy that obligation through payment of a fee, then 50 percent of that payment may be credited toward this criterion. Please note, however, that the Measure provides no methodology by which to calculate such credit.

Finally, if a project is proposed to develop in phases and is subject to a Development Agreement with the City, then the required housing production for the entire project (i.e. all phases must be considered when evaluating the proposed office allocation.

- b) The office project may not use any “San Francisco Affordable Housing Development Funding” for capital development costs of the project.

6. **Incremental Deductions for Reserve Projects.** The Measure requires the total square footage allocated to projects from either of the two “reserve” provisions outlined in Nos. 4 and 5 above to be accounted for within the standard Large Cap over time. More specifically, one tenth of all additional office space allocated pursuant to these “reserve” provisions in a year is deducted from the 875,000 square feet that is allotted to the Large Cap at the beginning of the next allocation year (i.e. October 17). The one tenth deductions then continues each year until the allocated amount is reduced to zero (i.e. 10 years total).

For example, if one project of 100,000 square feet is approved in the 2019-20 allocation year using one of the “reserve” provisions, then only 865,000 square feet will be allotted to the standard Large Cap on October 17, 2020. This is calculated as the standard annual Large Cap allotment (875,000 square feet minus one tenth of the prior year’s allocation from a “reserve” provision ($100,000 / 10 = 10,000$ square feet).

Approvals of additional “reserve” provisions projects in subsequent years will compound this deduction during overlapping approval periods.

7. **Planning Commission Review Criteria.** The Measure reduces the number of required criteria for review by the Planning Commission for office allocations from a total of seven to four. It also

removes the prohibition for the Planning Commission to consider any payments to City housing or transit funds when considering a proposed office allocation.

The Measure removes the following Planning Commission review criteria:

- a) contributions and effects on the General Plan,
- b) the quality of design,
- c) anticipated uses of the project,
- d) proposed occupancy (single vs multiple tenants, and
- e) the use of Transferable Development Rights (“TDR”).

The Measure adds the following criteria:

- a) Whether the project includes new affordable housing units that meet all the following criteria:
 - i. The affordable units are on-site or off-site within a Community of Concern;
 - ii. The affordable units are pursuant to a requirement of a Development Agreement with the City; and
 - iii. The office project will also produce affordable housing to account for 100 percent of such housing needed to house future employees of the office space, pursuant to the “City’s Affordable Housing Demand Ratio.”
- b) The extent to which the project incorporates “Community Improvements” beyond Planning Code requirements, as defined in the Measure.

Provisions Requiring Interpretation:

Several provisions and terms within the Measure are either undefined or not clearly expressed in terms of specific implementation. Each such term or provision is addressed below.

1. “Housing Units” is not currently defined in the Planning Code, which instead defines “Dwelling Units” and “Group Housing.” The Planning Code also defines “Residential Units,” although only the purposes of regulating the removal of such units. The Planning Code provides no standard conversion methodology between Dwelling Units and Group Housing. This term will require interpretation in order to determine the office limits within the Central SoMa SUD described in No. 3 above.
2. “Community Arts PDR,” “Neighborhood-Serving Retail,” and “City Public Safety Facility” are not currently defined in the Planning Code. The Measure provides no definition for these terms. These terms will require interpretation in order to determine eligibility of projects for the Central SoMa Incentive Reserve described in No. 4 above.
3. The Office Jobs/Affordable Housing Balance Incentive described in No. 5 above provides a credit for payment of the Affordable Housing fee to meet a project’s required affordable housing obligation. However, the Measure provides no methodology to determine how such fee will be converted

to a housing unit basis in order to calculate the “City’s Affordable Housing Demand Ratio.”

4. The Office Jobs/Affordable Housing Balance provision described in No. 5 above allows such a project to be approved even if it contains more office space than what is available in the standard Large Cap at that time. However, this provision does not indicate whether such an allocation must 1 still be deducted from the standard Large Cap, such that it would be taken into the negative, or 2 if the amount of office space allocated greater than that available in the standard Large Cap is simply disregarded.

Impacts on Planning Department Work:

The Measure will add new or increased work for the Planning Department as follows:

1. Conduct additional office development tracking to ensure compliance with the various provisions added to the Program over time;
2. Publish an inventory of housing units produced within the prescribed area on October 17 of each year going forward;
3. Conduct additional analysis for individual projects to ensure compliance with the relevant provisions added to the Program.

Please do not hesitate to consult us as your deliberations move forward by contacting Corey Teague at 415-575-9081 or corey.teague@sfgov.org.

Sincerely,

John Rahaim,

Director of Planning

Attachments: Central SoMa Plan Area Map

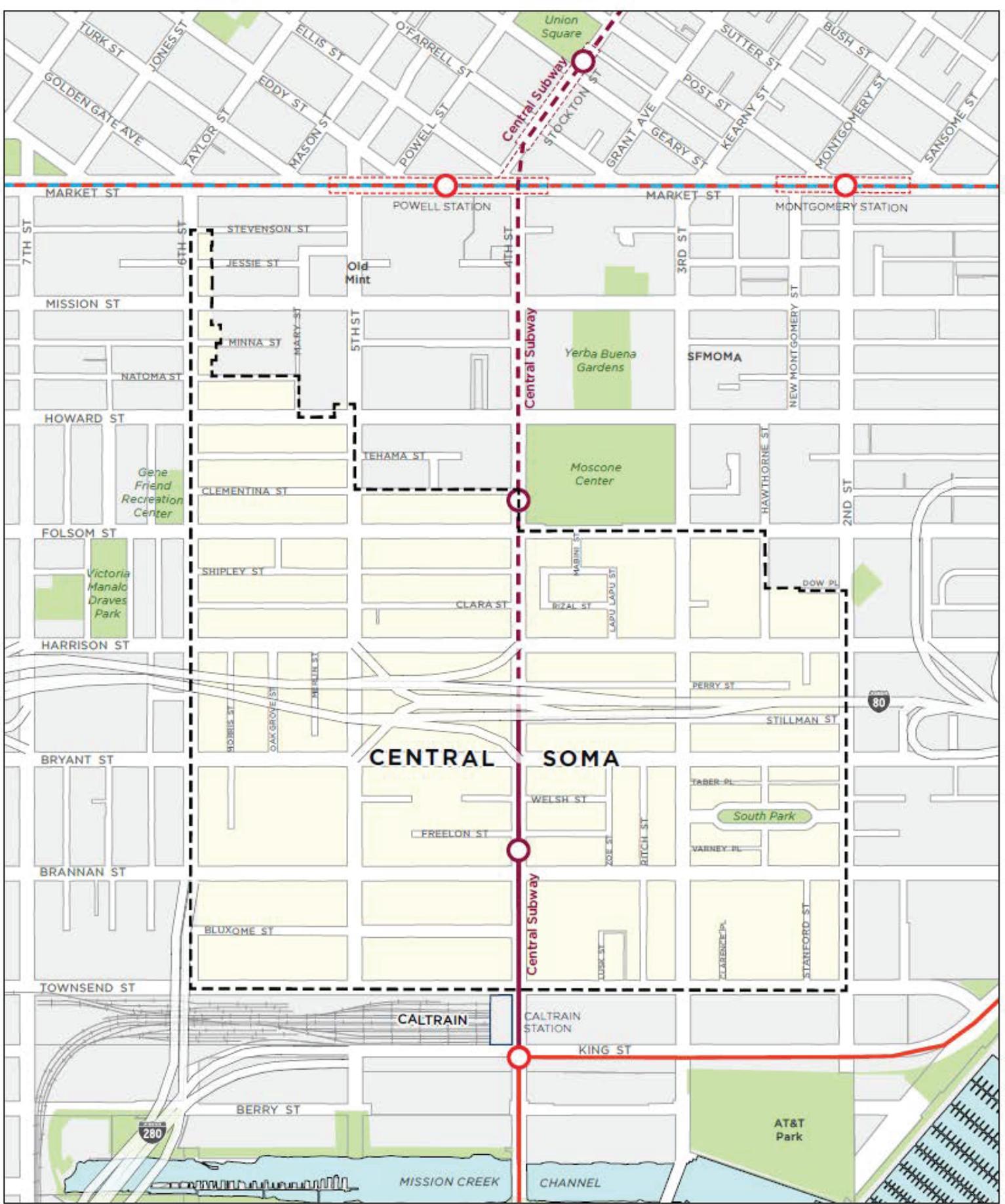


Figure A
PLAN AREA BOUNDARY



2,000 Feet

- - - Central Subway
under construction, expected to open in 2019
- - - BART/Muni Metro Subway
- Muni Metro (Surface)