# Exploring the Possibilities of K-12 Workforce Housing in California

multistudio

# Identifying and Eliminating Barriers to Workforce Housing

Many school districts in California—and nationwide—are struggling to maintain a stable workforce amid a widespread teacher shortage. **In California alone, more than 200 school districts reported that 75 percent of schools started the 2023 school year with a shortage of qualified teachers**, according to a Learning Policy Institute study.

But in the San Francisco Bay Area's well-documented housing affordability crisis, most teachers are priced out of living in the communities they serve. This creates a major barrier to attracting teachers, especially younger teachers and teachers of color. **Teacher recruitment and retention challenges negatively affect student achievement, especially in schools serving low-income and predominantly Black, Indigenous, and People of Color (BIPOC) communities.**

K-12 workforce housing offers a potential solution to these intersecting challenges. Many districts are interested in leveraging their own land to provide affordable housing for their teachers and staff. Providing housing could be especially effective in recruiting a younger and more diverse workforce.

But building housing is a new venture for most school districts, and not a core part of their educational mission. Many school administrators are overwhelmed by the process: they are trying to address retention of teachers and staff, not trying to become housing developers. Certain key decisions need to be made up-front, such as the financing approach which often drives other decisions. Many districts need more information about their options to decide if workforce housing is a fit for them, and to plan a successful project.

Seeing this information gap, Multistudio has initiated a series of think tank discussions around navigating K-12 workforce housing in California. **The first discussion centered around identifying barriers districts face in pursuing workforce housing projects.** We convened a mix of regulatory and finance experts—along with school districts that are currently engaged in workforce housing development projects and districts that are evaluating projects—to share insights, lessons learned, and creative approaches.

This is the first in a series of reports from think tank discussions about the potential of K-12 workforce housing. The first discussion was recently held in our San Francisco studio. Our goal is to help districts capitalize on the potential to develop workforce housing on land they own, to address chronic housing shortages and meet their recruitment and retention goals.


Source: Learning Policy Institute

# Key Think Tank Takeaways

## Legislative Environment

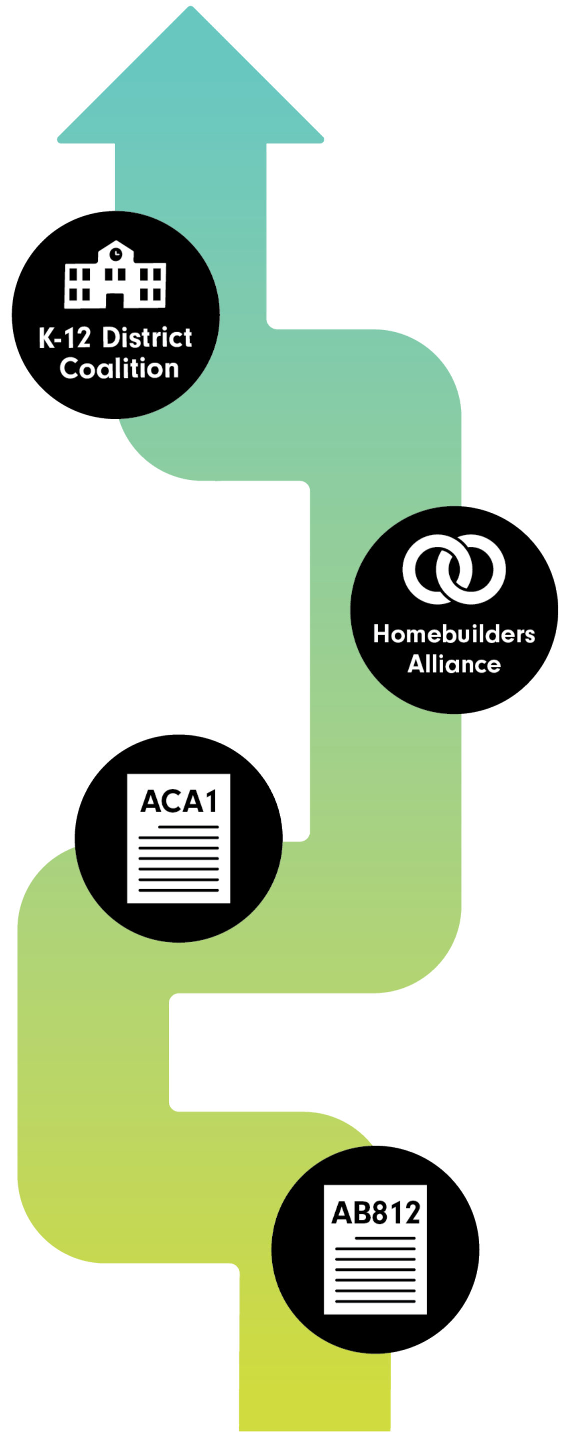
According to Alex Torres of Brownstein Hyatt Farber Schreck, teacher workforce housing is a political “winner” in CA that is largely welcomed in communities. As recent successful legislation to provide affordable housing for artists, California Assembly Bill 812 (AB 812) proves there is a model for teacher workforce housing.

Housing politics in CA have changed significantly, and 2023 was a banner year for pro-housing production legislation. CA House Speaker Robert Rivas recently reorganized the CA Assembly leadership to be very pro-housing. In terms of upcoming legislation, Assembly Constitutional Amendment No.1 (ACA 1) is already on the 2024 ballot, and if passed will authorize cities and districts to issue affordable housing bonds with 55% voter approval.

Because of the current legislative environment and need for workforce housing, Alex Torres urges CA districts to:

- **Align with the pro-production Homebuilding Alliance.** The Homebuilding Alliance is comprised of the major housing bill sponsors Bay Area Council, Housing Action Coalition (HAC), Housing California, SPUR, CA YIMBY, Greenlining Institute, CA Chamber of Commerce, and CA Building Industry Association. The diversity of this coalition is a major strength, and an opportunity for school districts, affordable developers, and other stakeholders to ride the pro-housing wave and help secure key wins for workforce housing and other affordable development.

- **Build a coalition and jointly advocate as new legislation is crafted.** Organizations with well-established advocacy arms like Community College Facilities Coalition (CCFC) can provide a model for advocacy, that K-12 organizations like the California School Board Association (CSBA) and Coalition for Adequate School Housing (CASH) could follow.

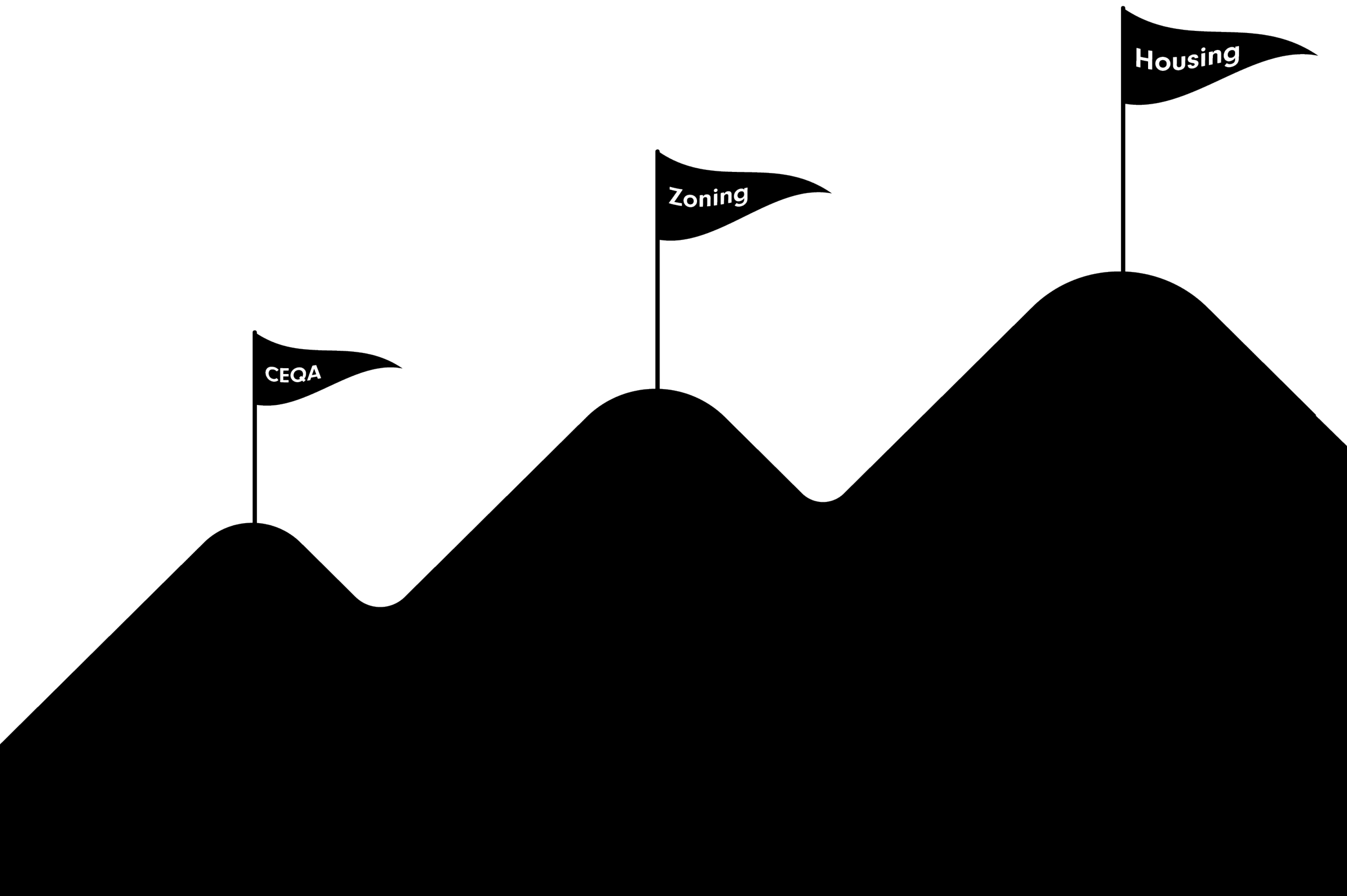


# Entitlements Process

According to Tony Mirenda, Executive Director at Kitchell, the barriers facing districts in the entitlements process include:

- **Misuse of the California Environmental Quality Act (CEQA).** This legislation has been improperly leveraged by many communities to obstruct proposed multifamily housing projects. Since time is money in development, a CEQA lawsuit can effectively kill a project depending on duration. Many pieces of current and proposed legislation in CA carry CEQA exemptions or ministerial approvals to help prevent this.
- **Local zoning control.** Without the ability to override local zoning restrictions, many projects don't make financial sense for developers. Current state law allows school districts and special districts to override county and city general plans and zoning to carry out their own public works projects. However, hybrid projects—for example those that combine affordable and market rate units—must be carefully considered because local zoning control may only be waived for the affordable portion.

Partnerships are becoming more feasible amongst K-12 districts and/or with community colleges, to share in the risk and reward of jointly developing housing. This is a trend that's expected to become more prevalent.



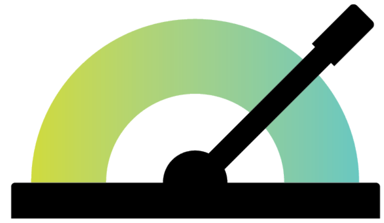
# Financing Options

According to Ross Robb, Principal with RLR Ventures, LLC, financing risk (i.e. leveraging core districts assets to support housing development) is considered by many school districts to be the most intimidating aspect of contemplating new workforce housing. But tools can be deployed to create a new paradigm of affordability and desirability in the communities that school districts reside in.

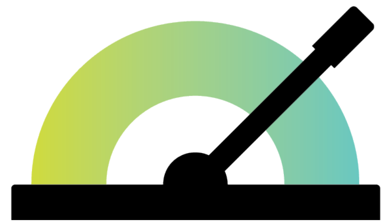
In real estate development, there are five main levers of financial feasibility to pull:

1. **Project costs**
2. **Operating expenses**
3. **Cost of capital**
4. **Cost of land**
5. **Rent revenue**

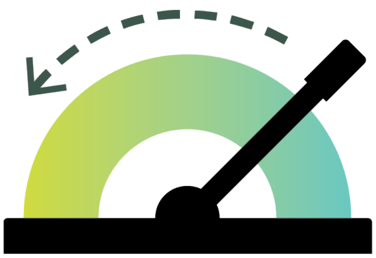
Currently—especially in California—the first four levers are pushed all the way forward, resulting in higher costs, which causes rental rates to follow suit, making it extremely difficult for multifamily projects to pencil out. Cost of capital and cost of land are two opportunities to target for cost reduction. Cost of capital can be reduced by employing combinations of low-income housing tax credits (LIHTC) and tax-exempt debt if the project qualifies. The cost of land can potentially be free or deferred, with a district entering into a ground lease where it gets paid if and when the project is successful.



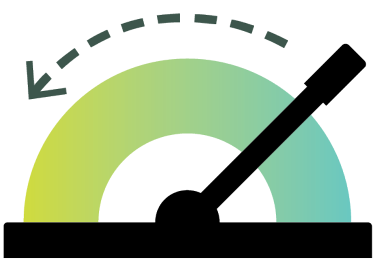
**Project Costs**



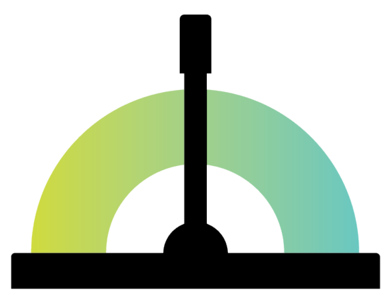
**Operating Expenses**



**Cost of Capital**



**Cost of Land**



**Rent Revenue**

Participants from RBC (Royal Bank of Canada) Capital Markets went over the main sources of funding for affordable housing developments. Selecting a funding source may dictate whether a school district can restrict housing access to a specific population (i.e. teachers) or simply designate them as having leasing priority. For example, LIHTC properties must comply with the Fair Housing Act and cannot deny admission based on membership in a protected class.

## Tax Credits

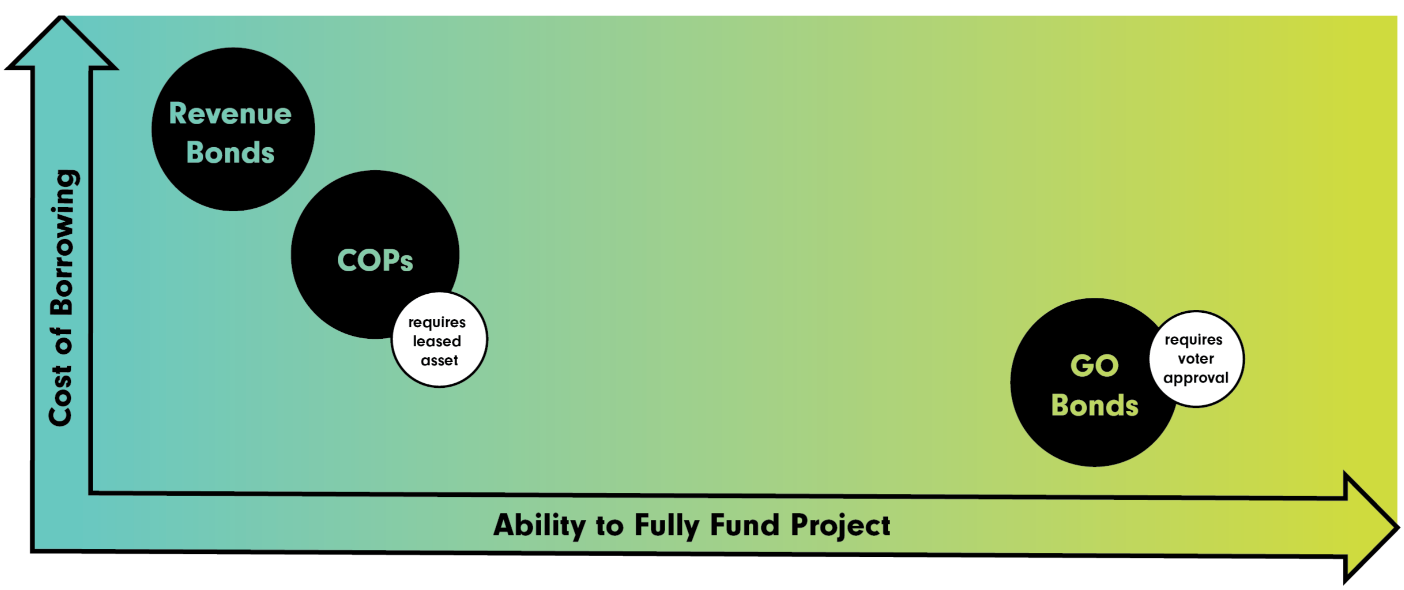
- **Low Income Housing Tax Credits (LIHTC).** LIHTC are issued by the federal government and administered by state agencies. The federal regulations for the LIHTC program require rents to be based on the federally published Area Median Income (AMI) for the county the property is located in. In many places these won't work for teacher housing as teacher income levels may be too high, especially for established teachers. However, they may work for other categories of district employees.

## Debt Financing

- **General Obligation Bonds (GO Bonds).** GO Bonds are debt backed by a district's tax base. These bonds have the lowest cost of borrowing and ability to fund an entire project, but the tax base needs to be willing to support a bond. In this scenario, a workforce housing project is typically included in a list of desired school facility projects. This approach is often considered the most cost effective.

- **Certificates of Participation (COPs) and Lease Revenue Bonds.** These tax-exempt bonds usually secured with revenue from a property lease. In the current financial environment, they are no longer a viable source for funding the majority of a project.

- **Revenue Bonds.** Revenue Bonds can be issued by a conduit agency to fund a project which then repays the debt from the rental revenue created by that project. These have the highest cost of borrowing among the options and are unlikely to be able to finance an entire project. This approach may be considered the most expensive.



Source: San Francisco Unified School District. Photo courtesy of MidPen Housing, rendering by Fletcher Studio. Designed by BAR Architects & Interiors

# Case Study: San Francisco Unified School District (SFUSD) Shirley Chisholm Village

Karen Sullivan, Executive Director of Facility and Capital Planning at SFUSD and Ali Gaylord, Director of Housing Development at MidPen Development, presented SFUSD's first workforce housing project which is currently under construction. The project consists of 135 units targeting 40-120% AMI, located on a district-owned site in the Outer Sunset neighborhood of San Francisco. Together, SFUSD and MidPen Development were able to establish demand for the project, develop a financing structure, and select a site in the following ways:

## Establishing the Demand for Housing

- In terms of establishing the demand for housing, SFUSD conducts an annual survey of its staff that clearly established the need for and interest in district-provided housing.
- The district established a tiered structure for eligibility: first priority to educators, second to any other SFUSD employees, and third to the general public.

## Writing the RFQ

- SFUSD received invaluable technical support from the San Francisco Mayor's Office of Housing and Community Development in defining the project parameters and writing the RFQ.

## Developing the Financing Structure

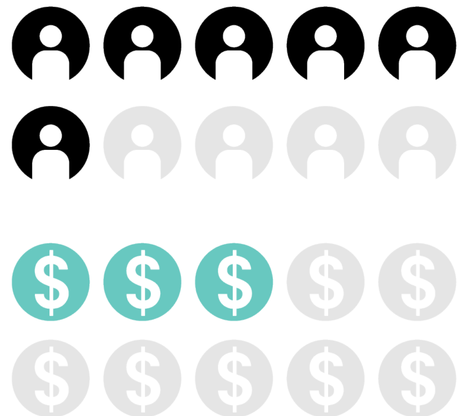
- One key aspect of the financing is SFUSD's donation of the land valued at $22m. The district is not getting any other ongoing revenue from the project, aside from the benefit of having housing available for its staff in one of the nation's highest-cost cities.
- The financing also relied heavily on LIHTC and tax-exempt bonds. SFUSD and MidPen had to pivot between 9% and 4% tax credit schemes as the real estate finance landscape changed over the course of deal development. It took them three years to get the LIHTC allocation.
- The project was ultimately structured as two ownerships to take advantage of the 9% tax credit: a 35-unit tax credit project (for the lowest-income levels) and a 100-unit market rate project (targeted to the teachers). This involved two ground leases, two financial packages, and two construction contracts.

## Selecting a Site

- The site was selected from a range of district-owned sites in San Francisco. Its proximity to multiple schools and multiple transit lines were key factors.
- The site's prior use as a temporary outdoor community space meant that there was already an invested group of stakeholders. Developer MidPen capitalized on this to conduct focus groups for what community members wanted to see on the site.

## Determining and Allocating Units

- MidPen also conducted educator focus groups to help determine unit mix, desired amenity spaces, resident service programming and building aesthetics, to tune the project to its target market. The units are a mix of one, two and three bedrooms. Amenities include flexible work areas, a landscaped courtyard and playground, on-site laundry and fitness center, and on-site after school programming.
- In early 2024, SFUSD will hold its first of two planned lotteries for allocating the units.



**More than 60 percent of SFUSD teachers spend more than 30 percent of their income on rent.**

**Nearly 15 percent of teachers in San Francisco spend more than 50 percent of their income on rent.**

Source: 2017 QTEA Survey. Adapted from SFUSD 2023 Facilities Master Plan

Stay tuned for future K-12 Workforce Housing Think Tanks.

**Contact**

Lauren Maass, Principal
lauren.maass@multi.studio
415.844.2114
www.multi.studio

multistudio