



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Rosalynn Hughey
Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: March 7, 2018

Approved

D. D. SyL

Date

3/8/18

SUBJECT: ACCEPTANCE OF THE ANNUAL PROGRESS REPORT ON THE IMPLEMENTATION OF THE SAN JOSE GENERAL PLAN HOUSING ELEMENT AND THE HOUSING SUCCESSOR AGENCY ANNUAL REPORT

RECOMMENDATION

- (a) Accept the Calendar Year (CY) 2017 Annual Progress Report on the Implementation of the San José 2014-23 Housing Element.
- (b) Accept the Fiscal Year 2016-17 Housing Successor to Redevelopment Agency Annual Report.

OUTCOME

Following the passage of Assembly Bill 879 (Grayson), Charter cities are now required to submit an annual housing element report to the State. The City Council's acceptance of the Annual Progress Report is required prior to submitting the report to the California Department of Housing and Community Development (HCD) and the Governor's Office of Planning and Research (OPR). In addition, maintaining a housing element that complies with HCD's reporting requirements allows the City to remain eligible for important State and regional funding.

EXECUTIVE SUMMARY

State law requires jurisdictions to prepare an annual progress report each calendar year to detail the implementation of their Housing Element and to submit it to HCD and the Governor's Office of Planning and Research (OPR). Maintaining a housing element that complies with HCD's reporting requirements qualifies jurisdictions for State funding programs.

The Housing Element establishes comprehensive goals to meet a jurisdiction's share of Regional Housing Needs Allocation (RHNA). San José's RHNA for the current 8.8-year projection

period from January 2014 through October 2022 is 35,080 housing units. This equates to an annual production rate of 3,986 units. A large portion of San José's current RHNA goal (42%) consists of homes that are affordable for Extremely-Low Income (ELI), Very-Low (VLI) Income, and Low Income (LI) households as defined by HCD.

In calendar year 2017, the City issued building permits for 3,097 new residential units, a 48% jump since 2016. This includes 2,622 market-rate units (162% of the annualized goal) and 475 affordable units (20% of the annualized goal). During the first four years of the 8.8-year RHNA projection period, the City has met 33% of its cumulative housing goal. By income category, the City has met 72% of its market rate housing goal and 7% of its affordable housing goal to date.

The Housing Department intends to bring a five-year Affordable Housing Investment Plan to City Council in Spring 2018. This report will detail the City's affordable housing pipeline and estimate the amount of federal, state, regional, and local funding that will be available for the construction of affordable housing in San José during this period.

The Housing Successor to Redevelopment Agency Annual Report for Fiscal Year 2016-17 is required to be submitted with the Annual Housing Element Progress Report. The report provides information on the Low and Moderate Income Housing Asset Fund (LMIHAF). The Successor Agency has addressed the expenditure tests as required in the Report.

BACKGROUND

The Housing Element establishes a comprehensive policy framework to implement San José's residential strategies. The Housing Element outlines the City's plan to meet its affordable and market rate housing production goals also referred to as the Regional Housing Needs Allocation (RHNA). The determination of regional housing need is completed by HCD, the California Department of Finance (DOF) and regional Councils of Government (COGs). The State agencies calculate statewide housing needs based upon population projections and regional population forecasts used in preparing regional transportation plans. The Statewide need is then distributed to regional COGs throughout California, who work with cities and counties within their purview to assign each jurisdiction its share of the RHNA.

The City of San José is a member of the Association of Bay Area Governments (ABAG), the Bay Area's COG, which is composed of nine counties and 101 cities. ABAG is responsible for distributing the RHNA to the Bay Area local governments through an allocation methodology that is consistent with development and growth patterns. San José's RHNA for the current 8.8-year projection period from January 2014 through October 2022 is 35,080 housing units. This equates to an annual production rate of 3,986 units. (This is slightly higher than the previous 2007-14 RHNA cycle allocation of 34,721 units.)

The RHNA itself is divided into five income categories that encompass all levels of housing need. A large portion of San José's current RHNA goal (42%) is focused Extremely-Low Income (ELI), Very-Low (VLI) Income, and Low Income (LI) households, as defined by HCD and as shown in Figure A below.

Figure A – HCD 2017 Income Limits for Santa Clara County

Income Level % of AMI	Household Size							
	1	2	3	4	5	6	7	8
Extremely Low Income (30% AMI)	\$25,100	\$28,650	\$32,250	\$35,800	\$38,700	\$41,550	\$44,400	\$47,300
Very Low Income (50% AMI)	\$41,800	\$47,800	\$53,750	\$59,700	\$64,500	\$69,300	\$74,050	\$78,850
Low Income (80% AMI)	\$59,400	\$67,900	\$76,400	\$84,900	\$91,650	\$98,450	\$105,250	\$112,050
Median Income (100% AMI)	\$79,300	\$90,650	\$101,950	\$113,300	\$122,350	\$131,450	\$140,500	\$149,550
Moderate Income 120% AMI)	\$95,150	\$108,750	\$122,350	\$135,950	\$146,850	\$157,700	\$168,600	\$179,450

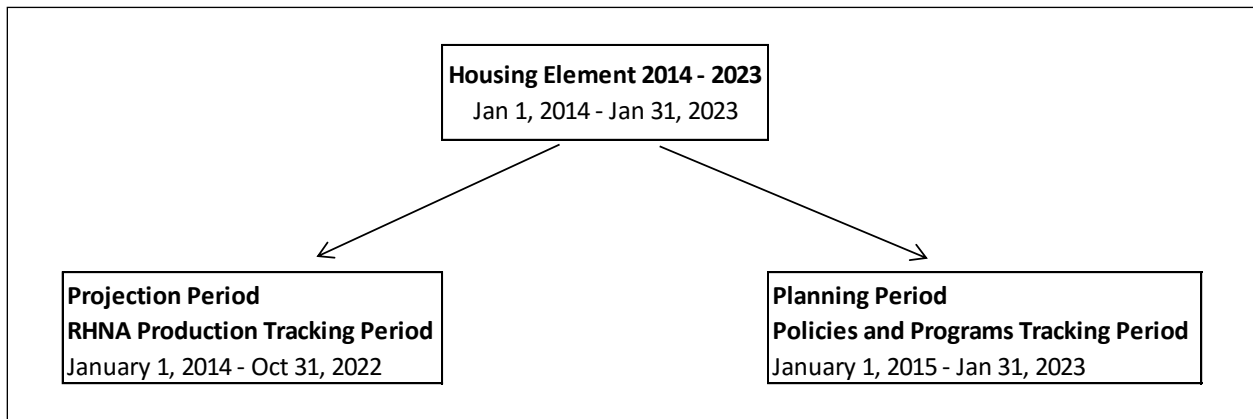
The City Council adopted the 2014-23 Housing Element on January 27, 2015, and submitted it to HCD for approval on January 30, 2015. HCD certified the Housing Element on April 30, 2015.

The adopted Housing Element can be found at:

www.sanjoseca.gov/DocumentCenter/View/43711

There are two reporting periods associated with the Housing Element, as shown in Figure B below. While building permit goals will be measured against an 8.8- year projection period from January 1, 2014 to October 31, 2022, progress on policies and programs (Appendix D in the Housing Element) will be tracked (starting in 2015) against an 8.1-year planning period from January 1, 2015 to January 31, 2023.

Figure B – RHNA 2014-23 Reporting Periods



State law requires jurisdictions to prepare an annual progress report each calendar year to detail the implementation of their Housing Element and to submit it to HCD and the Governor’s Office of Planning and Research (OPR). All jurisdictions, including charter cities, must now submit annual reports. The report covers the following topics:

- Progress on the City’s Extremely-Low, Very-Low, and Low-Income RHNA goals.
- Progress on the City’s Moderate- and Above Moderate- Income RHNA goals.
- Progress on the Housing Element workplan to increase, preserve and improve the supply of affordable housing; invest in activities to end homelessness; promote equitable development; and create healthy, sustainable, communities and neighborhoods.

With the acceptance of a completed annual report by the City Council, the City of San José submits the report to HCD and OPR. It is important to note that maintaining a housing element that complies with HCD's reporting requirements qualifies jurisdictions important funding opportunities including but not limited to: The Sustainable Communities Grant, PDA Planning Grant, Affordable Housing and Sustainable Communities funding, Housing Related Parks Program, Infill Infrastructure Grant, One Bay Area Grant, and the Building Equity and the Growth in Neighborhoods program.

The Housing Successor to Redevelopment Agency Annual Report for Fiscal Year 2016-17 (Housing Successor Agency Report) is included with the Housing Element Annual Report to satisfy the requirements of Senate Bill 341, which took effect on January 1, 2014. This report describes how the City (as the successor to the former Redevelopment Agency of the City of San José) has utilized its former redevelopment agency funds on housing activities in conformance with State Health and Safety code.

ANALYSIS

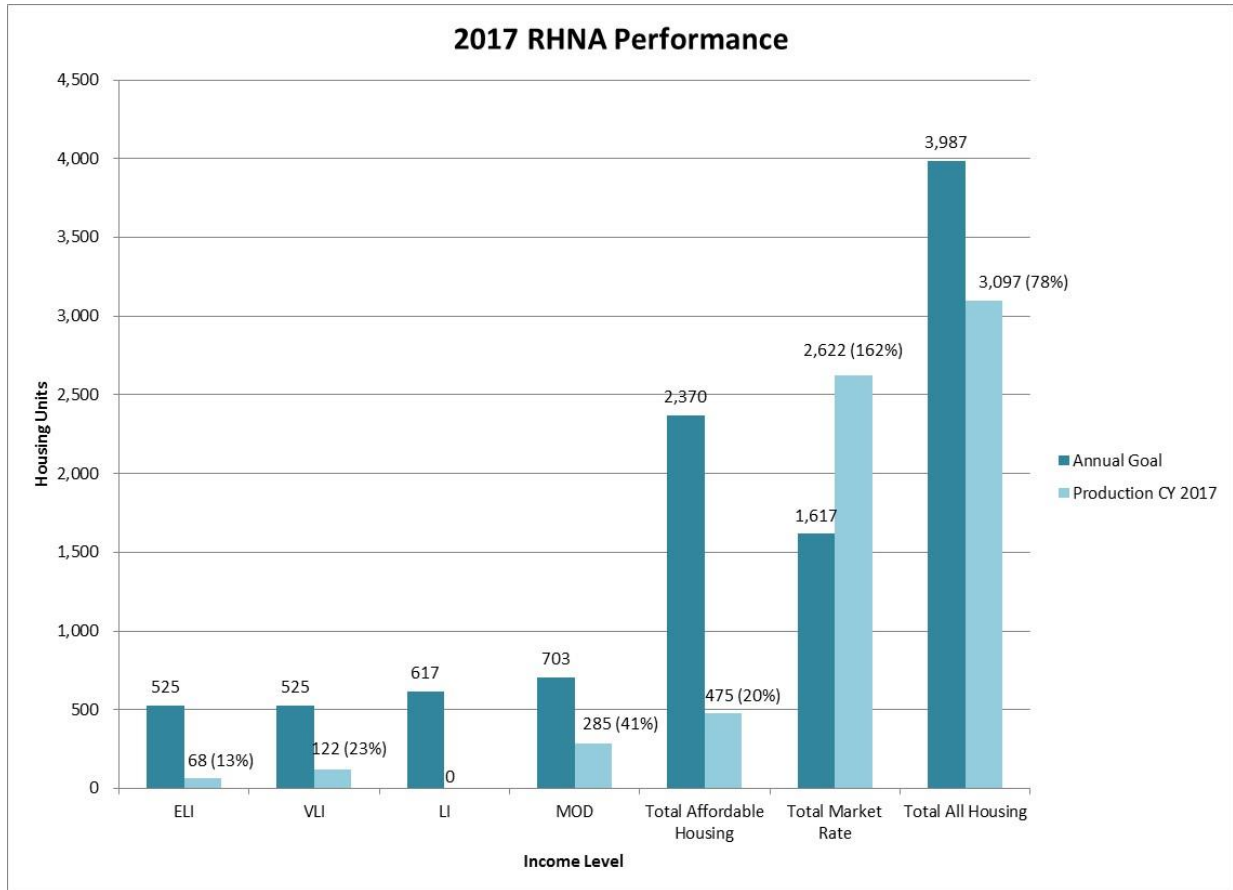
The Housing Department and the Department of Planning, Building and Code Enforcement have completed Housing Element Annual Progress Report for Calendar Year (CY) 2017. This report is provided as an attachment to this memorandum. Highlights of the report are discussed below.

In calendar year 2017, the City issued building permits for 3,097 new residential units, a 48% jump since 2016. This includes 2,622 market-rate units (162% of the annualized goal) and 475 affordable units (20% of the annualized goal). Affordable units are those units deemed affordable to Extremely-Low, Very-Low, Low- and Moderate-Income households (as detailed in Figure A above). For CY 2017, the City developed a methodology to determine market-rate units that can reasonably be categorized as moderate-income units for RHNA reporting purposes. HCD's guidelines indicate that where information pertaining to unit affordability is unavailable, units can be counted in the moderate-income category based on market conditions.

Staff projected average effective rents for apartments permitted in 2017 using CoStar and found three zip codes where rents were naturally affordable for moderate-income households. Staff analysis looked at buildings with 10 or more apartments and assumes HCD occupancy guidelines. This analysis identified 285 apartments that issued building permits in 2017 and that are projected to rent at moderate-income levels in 2019. A detailed description of the methodology used in this analysis is included as an attachment to the Housing Element Report.

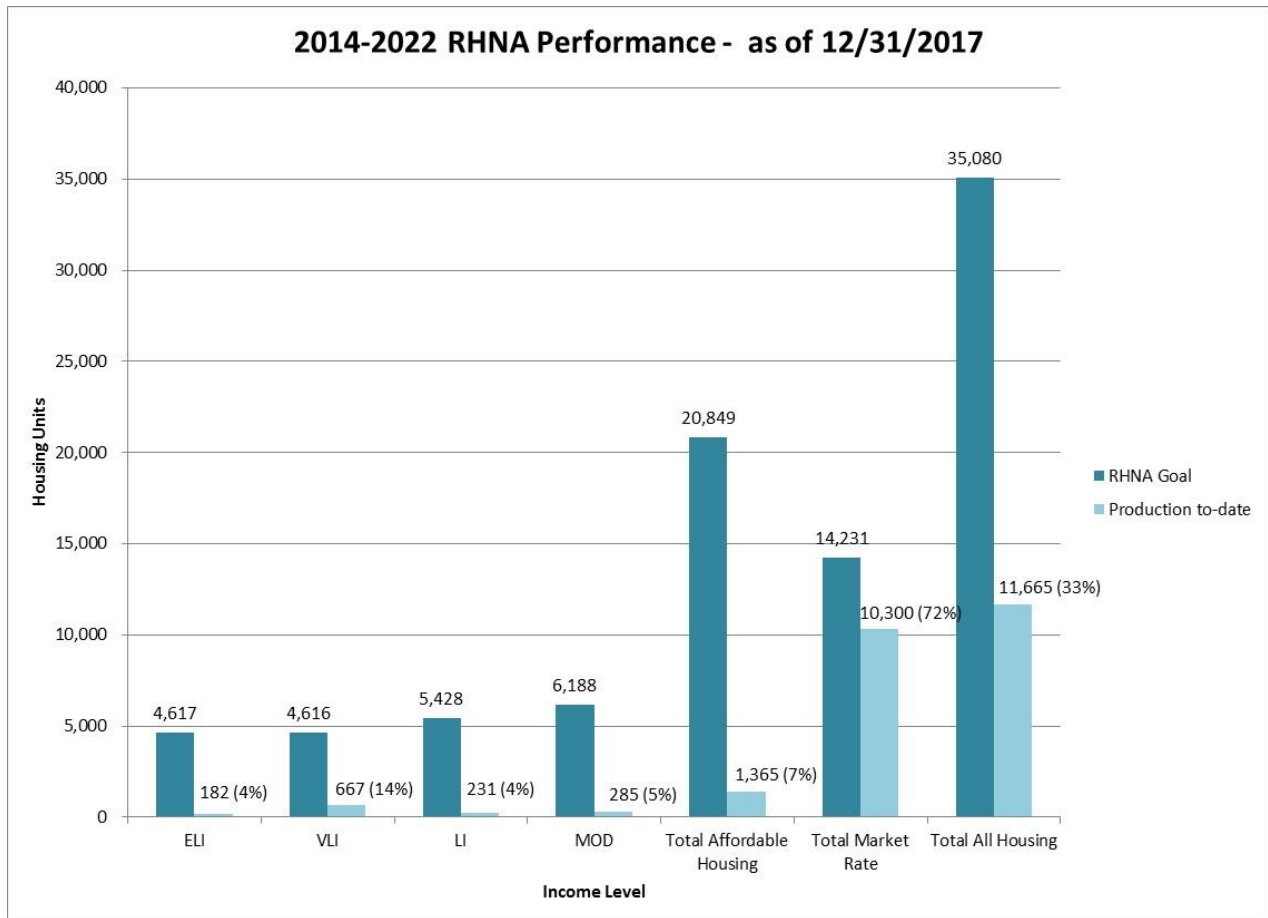
The number of secondary dwelling unit permits issued significantly increased from 38 units in 2016 to 92 units in 2017. In 2017, secondary dwelling units were counted as "above moderate" because staff does not have data on the rents being charged. Figure C breaks down the City's housing permits by income category.

Figure C – CY 2017 RHNA Production Performance



During the first four years of the 8.8-year RHNA projection period, the City has met 33% of its cumulative housing goal. By income category, the City has met 72% of its market rate housing goal and 7% of its affordable housing goal to date. Figure D breaks down the City's RHNA performance to date by income category.

Figure D – 2014 – 2022 RHNA Production Performance



Market Conditions:

The San José Metro Area (Santa Clara and San Benito counties) is the second most expensive rental and homeownership market in the Country.¹ Market rents are significantly out of reach for many San José workers including teachers, construction workers, and retail salespersons. Annual rents have increased 30% over the past five years² and only 14% of homes that are for sale are affordable to a family earning the median income³.

Resources:

Financial challenges across all levels of government have severely reduced the ability of the public sector to help house lower-income households. The primary challenge for affordable housing in California is the loss of redevelopment agencies (RDA) which provided the largest and most flexible revenue stream for low- and moderate-income housing. In San José, the RDA produced approximately \$40 million per year for affordable housing and this source has not been

¹ National Housing Conference, Paycheck to Paycheck Report for 2017; <https://www.nhc.org/publication/paycheck-to-paycheck-2017/>

² Real Answers Quarterly Statistics 2010 - 2015

³ National Association of Home Builders (NAHB) Housing Opportunity Index Q3 2017

replaced. In addition, the decrease in federal funding for housing and community development has exacerbated the funding shortfall.

In response to the housing crisis, state lawmakers have passed several pieces of legislation that will assist cities in addressing affordable housing. AB 1505 allows San José to fully implement its Inclusionary Housing Ordinance for rental and ownerships developments. SB 2 will generate on-going funding from real estate transfer taxes, and SB 3 will bring a \$4 billion affordable housing bond measure to the voters this November. Finally, Santa Clara County voters approved Measure A which will raise \$950 million for affordable housing development. Together, these new sources will leverage existing resources to provide a much-needed boost to affordable housing production in Silicon Valley.

The Envision San José 2040 General Plan (General Plan), which incorporates the HCD-certified Housing Element, includes capacity for 120,000 new housing units through 2040. Within the provisions of this capacity, there is sufficient capacity to meet the requirements of the current Housing Element projection period.

In spite of limited funding for below-market rate units, San José continues to facilitate the creation of new affordable housing units. The City's affordable pipeline is growing and contains approximately 800 units from projects that have received a funding commitment but have not yet pulled building permits. The City also intends to issue a Notice of Funding Availability (NOFA) for approximately \$100 million in Spring 2018. The funds, derived mostly from repayments of redevelopment-funded loans, are expected to help create more than 800 new affordable homes at varying affordability levels.

As noted in the Annual Housing Element Report, the Housing Department intends to bring a five-year Affordable Housing Investment Plan to City Council in Spring 2018. This report will include information about the City's affordable housing pipeline as well as estimates on the amount of federal, state, regional, and local funding that will be available for the construction of affordable housing in San José.

Housing Successor to Redevelopment Agency Annual Report

Staff has also attached the Housing Successor to Redevelopment Agency Annual Report for Fiscal Year 2016-17 (Successor Agency Report). As mentioned previously, this Report is required to be submitted with the Annual Housing Element Progress Report. The report provides information on the Low and Moderate Income Housing Asset Fund (LMIHAF). The Housing Successor Agency report is included as an attachment to the Housing Element Annual Progress Report.

The Successor Agency Report shows that the City had \$561,528,541 in LMIHAF assets at the end of the fiscal year. Besides information on aggregate expenditures, the document includes several expenditure "tests" that the Successor Agency must meet. The "Excess Surplus Test" requires that the Agency cannot have unencumbered funds that exceed the aggregate amount deposited into the fund during the preceding four fiscal years. The Report indicates that the aggregate amount during the four prior years is \$121.2 million. The unencumbered amount is

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\$85.8 million. Therefore, the Successor Agency meets this test because the balance does not exceed the aggregate amount deposited for the test period.

Redevelopment law also places a limit on the amount of funds that can be spent on affordable units for senior citizens. If this percentage exceeds 50% of units funded over the last ten years, the Housing Successor cannot expend future LMIHAF funds on new senior housing until the Housing Successor or City has reduced this percentage to 50% or below.

The report indicates that 21% of expenditures over this period went to fund senior housing. Therefore, the Successor Agency meets the “senior housing test” and can continue to fund senior affordable housing developments with the LMIHAF.

EVALUATION AND FOLLOW-UP

After the City Council accepts this annual progress report, staff will submit the approved document to HCD and OPR by the State-mandated April 1, 2018, deadline.

PUBLIC OUTREACH

This report will be posted on the City’s website. The individual City programs and projects described in the attachment have had appropriate public outreach pursuant to City Council policy.

COORDINATION

This memorandum was coordinated with the City Attorney’s Office and the City Manager’s Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The current certified Housing Element aligns with the City’s federal Consolidated Plan. In addition, it aligns with the Housing Department’s Affordable Housing Investment Plan which prioritizes funding commitments towards the production of affordable housing. The construction of ELI housing aligns with the regional “All The Way Home” campaign to end Veteran’s homelessness in Santa Clara County as well as the Community Plan to End Homelessness.

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Additionally, the Housing Element is consistent with the General Plan's Major Strategies, goals, policies, and actions. In particular, the Housing Element is consistent with the General Plan action item to increase, preserve and improve San José's affordable housing stock.

CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/

ROSALYNN HUGHEY, ACTING DIRECTOR
Planning, Building and Code Enforcement

/s/

JACKY MORALES-FERRAND, DIRECTOR
Department of Housing

For planning related questions, please contact Jared Hart, Supervising Planner at (408) 535-7896. For housing related questions, please contact Adam Marcus at (408) 975-4451.

Attachment: Annual Housing Element Progress Report for Calendar Year 2017 and Housing Successor to Redevelopment Agency Annual Report Fiscal Year 2016-17