



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand

**SUBJECT:** SEE BELOW

**DATE:** September 7, 2018

Approved

Date

9/7/18

**SUBJECT: BOND ALLOCATION PLAN FOR THE PROPOSED \$450 MILLION  
GENERAL OBLIGATION BOND MEASURE FOR AFFORDABLE  
HOUSING**

## REPLACEMENT

### REASON FOR REPLACEMENT

This replacement memorandum is being submitted to provide clarity regarding the targeted income levels in the 0-80% area median income allocation.

### RECOMMENDATION

Accept the staff report on the bond allocation plan for the proposed \$450 million general obligation bond measure for affordable housing.

### BACKGROUND

On September 28, 2017, the Mayor issued a memorandum entitled "Responding to the Housing Crisis" that outlined a 15-point strategy leading to the development of 25,000 homes in five years, of which 10,000 would be affordable. The plan included multiple strategies for achieving the five-year goal.

On June 12, 2018, the City Council approved the Affordable Housing Investment Plan describing the funding sources available to fund the development of new affordable housing over the coming five years. The report quantified that an estimated \$548 million would be needed to meet the City's 10,000 affordable unit goal. This analysis took into consideration the availability

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of funding from Santa Clara County's Measure A which was approved by voters in 2016 and will provide \$950 million for the development of affordable housing. That report also indicated that despite the availability of new funding sources and organizational capacity to produce more affordable housing, there is still a need for \$548 million in additional funding needed to meet the affordable housing production goal established by the Mayor and City Council in 2017. Additionally, the City Council adopted the Mayor's June 12 memorandum which included direction to the City Manager to include in the next round of polling for a November bond measure, inclusion of language supporting at least \$250 million of funding for affordable housing, with the suggestion to test such concepts as "homeless housing," "cost-effective, innovative approaches to ending homelessness," "teacher housing," or "housing for the missing middle."

On August 7, 2018, the City Council voted to approve a memorandum from Mayor Liccardo that gave direction to bring forward a general obligation bond in the amount of \$450 million for affordable housing. The City Council further gave direction for language to be added to the draft resolution specifying the area median income and the people who would be eligible for housing produced using bond funds include domestic violence survivors and individuals with disabilities. Council provided further direction to the City Manager to return to Council within four weeks with a proposed bond allocation plan that contains minimum funding amounts for specified categories of affordable housing projects.

On August 10, 2018, the City Council adopted Resolution No. 78741 which includes the following provision applicable to the proposed General Obligation Bonds:

*"The measure will authorize the City to issue up to \$450 million principal amount of municipal General Obligation Bonds (the "Bonds"), for the purpose of financing the cost of land or improvement of land for, without limitation, providing housing affordable for working families; veterans; seniors; teachers; nurses, paramedics, and other workers; individuals with disabilities; domestic violence survivors; and the homeless, with at least \$150 million (one third) of the proceeds of the Bonds being used for housing affordable for families and individuals earning up to 30% of the area median income (AMI), and at least \$75 million (approximately 16%) of the proceeds of the Bonds being used for housing affordable for households earning between 80% and 120% of the AMI. Assuming the full authorization of \$450 million principal amount is issued, funds may be used to:*

- (a) acquire land for the development of housing;
- (b) construct new housing; and
- (c) acquire and rehabilitate existing apartments or homes to create housing that is restricted to be affordable for the long-term (collectively, the "Projects").

The City Council finds each of the proposed categories of Projects are improvements necessary for carrying out the City's objects, purposes and powers with respect to addressing

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the City’s need for affordable housing, as described above, for the preservation of public health, peace and safety.”

**ANALYSIS**

The allocation of bond funds will be categorized by the level of affordability, as measured by the household Area Median Income (AMI). Funds raised from the bond issuance will be used to leverage affordable housing funding including, but not limited to, funding currently available through Measure A; Low/Moderate Income Housing Fund, State funding sources including the Affordable Housing and Sustainable Communities program; tax credits; and City impact/in-lieu fees collected through San José’s Affordable Housing Impact Fee, Inclusionary Housing Ordinance and the Inclusionary Policy (collectively, the “San José Affordable Housing Programs”). Affordable housing funding from these sources are typically focused on housing individuals and families earning between 30% AMI and 60% AMI. The City Council directed that the bond proceeds will include a set aside for households earning between 0 to 30% AMI and 80 to 120% AMI. Funding for the lowest (0 to 30% AMI) and then highest (80 to 120% AMI) housing AMI ranges are minimum allocations (\$150,000,000 and \$75,000,000 respectively). The Housing Department is recommending that the remaining funds will remain flexible for the Housing Department to award as proposals to develop and/or acquire affordable housing with a primary focus in meeting the City Council’s goal of funding 10,000 affordable housing units over the coming five years. As described below, consistent with City Council direction, the following is the proposed allocation plan for bond funds.

**Proposed Allocation Plan**

The following allocation plan describes how (assuming the full authorization of \$450 million principal amount is issued) these potential bond funds will be used for affordable housing in the City, including to provide housing for working families (such as teachers, nurses, paramedics, and other workers); veterans; seniors; individuals with disabilities; domestic violence survivors; and individuals who are homeless.

<b>Targeted Populations</b>	<b>Allocation</b>
Households Earning up to 30% of the AMI	At least \$150,000,000
Households Earning up to 80% of the AMI	Up to \$219,350,000
Households Earning Between 80% and 120% of the AMI	At least \$75,000,000
Cost of Issuance	\$5,650,000
<b>Total</b>	<b>\$450,000,000</b>

*Households Earning up to 30% of the AMI*

The demand for all types of affordable housing creates an extremely challenging situation for the most vulnerable, unhoused members of the community, residents with fixed incomes and minimum wage workers. The income range for a two-person household earning 30% of the AMI

is \$0 to \$31,950 and for a four-person household is \$0 to \$39,900. Examples of occupations earning this range of income include fast food cooks, restaurant workers and cashiers. Seniors or disabled individuals who live on a fixed-income also fall into this income range. Additionally, more than 4,000 people in San José are homeless, with over two-thirds living on the streets or in encampments. These individuals are the most vulnerable and have the most difficulty in finding adequate housing. Thus a minimum of \$150,000,000 will be allocated to households earning between 0 and 30% AMI as described in the chart above.

#### *Households Earning up to 80% of the AMI*

Many households in San José continue to struggle to find housing they can afford. As described earlier, populations that face the greatest barriers include seniors, veterans, individuals with disabilities, domestic violence survivors, minimum wage workers, and our homeless residents. The income range for a two-person household earning 31% - 80% of the AMI is \$31,951 - \$75,600 and for a four-person household is \$39,901 - \$94,450. For a household to afford a two-bedroom apartment in the San José metro area requires an annual salary of \$100,880 or 4.4 minimum wage jobs.<sup>1</sup> Occupations earning income in this range include nurses, paramedics and construction workers.

Allowing funding up to 80% provides greater flexibility given the recent change to the low-income housing tax credit (LIHTC) that established income averaging as a third minimum set-aside election. Income averaging allows LIHTC qualified developments to serve households earning up to 80% of the AMI. This will increase the financial viability of affordable housing development and allow for deeper income targeting. Higher rents paid for by the 80% households could help to offset the lower rents for extremely low income or low-income households. Income averaging will also expand the program to serve more families. Before, families earning 80% of the AMI did not qualify for a LIHTC apartment. With limited housing choices, these families are likely to be living in a market-rate home, where they were spending a significant amount of their income on rent or may be commuting a long distance. Additionally, Measure A provides limited funding for households between 60-80% of the AMI.

Creating affordable housing options for these households is critical to providing much needed housing for service workers within our community. Thus targeting funds to households earning up to 80% of the AMI will begin to address these unmet needs.

#### *Households Earning Between 81% and 120% of the AMI*

Additionally, an emerging need for the “missing middle” has been identified in our community. The City’s largest current fund for affordable housing programs, the Low/Moderate Income Housing Fund, is limited to funding housing programs for households earning up to 60% of the AMI or less. Moderate-income households with two people currently are defined as those earning between \$75,600 and \$120,200 per year, while those with four people earn between \$94,450 and \$150,250 per year. This category includes teachers, optometrists, and dental hygienists. During the 1990s, the market produced moderate-income housing with little financial

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<sup>1</sup> National Low Income Housing Coalition, Out of Reach 2018.

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subsidy from the City. However, housing prices have risen drastically since that time and the production of moderately priced housing in today's market increasingly requires public subsidies. The Housing Department has set aside a portion of its Affordable Housing Impact Fee revenue for moderate income housing. This amount is estimated to be \$3.4 million which is approximately 1% of the Housing Department's estimated total resources over the next five years. The current need for housing at this income level exceeds the limited funding available. The bond allocation plan includes funding targeted to households earning between 81% and 120% of AMI, creating a new source of funds to address the needs of this population.

### **Bond Funds will Assist in Meeting the City's 10,000 Unit Affordable Housing Goal**

Based on the recently adopted Affordable Housing Investment Plan, the Housing Department proposed a per-unit subsidy cap of \$125,000 per unit regardless of the target income or population. Based on this cap, staff estimates that an additional 3,550 units may be produced with the bond funds. The total number of affordable units projected to be funded from all sources including the bond proceeds would be 9,165 units.

### **Potential Project Types**

As described above, the bond proceeds will be allocated by the targeted AMI levels. As stated in the affordable housing bond resolution, the bond funds will be used to finance the cost of projects to:

- (a) acquire land for the development of housing;
- (b) construct new housing; and
- (c) acquire and rehabilitate existing apartments or homes to create housing that is restricted to be affordable for the long-term (collectively, the "Projects").

However, there are several ways to invest in affordable housing developments. For example, funding may go towards establishing a land acquisition program for affordable housing. Construction of new affordable housing will be prioritized through a Notices of Funding Availability (NOFA) process. Additional development opportunities may include: acquisition and rehabilitation of existing apartments or homes to create housing that is restricted to be affordable for the long-term. This could include the purchase and restriction of existing mobile home parks. This type of acquisition would be carefully analyzed, due to the potentially high cost. For example, in May 2017 the Santa Clara Housing Authority was able to purchase the Buena Vista Mobile Home Park in the City of Palo Alto at a price of \$40.4 million. That park has 117 mobile homes and its rehabilitation could cost another \$30 million. If the bond voters approve the measure, the Housing Department will return with an updated Affordable Housing Investment Plan with recommendations on the most appropriate and efficient investment in creating affordable housing according to the requirements of the bonds and ballot measure and the AMI levels listed above. The recently approved Multifamily Underwriting Guidelines will also be reexamined to ensure consistency with the updated Affordable Housing Investment Plan.

### **Notice of Funding Availability**

As funds are made available, the City will issue a NOFA stating the City's intent to fund affordable housing developments that meet the City's priorities. The NOFA will reference funding requirements as specified in its Multifamily Underwriting Guidelines and may include an addendum that will address the spending requirements of the bond proceeds. The priorities for projects to be funded by the NOFA will also include readiness, cost effectiveness, housing for homeless, and leverage outside funds (including Affordable Housing and Sustainable Communities funding). Funding commitments for individual projects will be brought to the City Council for approval.

### **Strategies to Utilize Bond Funds**

If the measure passes, up to \$450 million will be available to build affordable housing. Housing staff along with stakeholders have discussed the following strategies to prepare for this opportunity:

- **Identification of land** – This may include public properties such as City sites, County land, VTA properties, and potentially sites with PQP Public/Quasi-Public zoning. Thus Housing staff in collaboration with the Department of Planning, Building, and Code Enforcement (PBCE) are exploring opportunities to amend the General Plan such as allowing PQP zoning to accommodate residential uses.
- **Access to funds for land acquisition** – Affordable Housing developers often need funding to purchase land quickly as they compete for land with market rate developers, thus developing a funding source that can assist with land acquisition and steps in the pre-development process.
- **Modification of the 1.5 Acre Rule** – In the fall 2018, PBCE and Housing Department staff will amend and streamline the 1.5 Acre Rule to allow commercial parcels with residential on just one side to be eligible to build mixed use development including residential units that are deed restricted affordable.

### **City Staff Capacity**

Staff in Housing, PBCE, and the City Manager's Office are forming a Housing Catalyst team including two new positions (1.0 Executive Analyst and 1.0 Housing Planner limit-dated through June 30, 2020) as directed by the Mayor's June Budget Message to facilitate the expectant goal of 25,000 new units, 10,000 of which are affordable, by 2022. In addition to this team, should the bond measure to increase affordable housing funding by \$450 million pass, staffing levels will need to be adjusted to provide for the relative increase in workload.

### **PUBLIC OUTREACH**

On August 21, 2018, the Housing Department met with affordable housing developers to discuss development of the bond allocation plan. A total of 15 participants attended and their feedback was incorporated into this memorandum. During the meeting, several affordable housing developers shared that their organizations have already begun to align their board priorities with the City's goals and have ramped up their staffing so that they are prepared to submit proposals to upcoming funding opportunities including the bond measure, if it passes, and to San José's upcoming NOFA and to the Measure A NOFA. The developers in attendance supported the Housing Department's recommendations regarding the allocation of bond funds by targeted household income level.

### **EVALUATION AND FOLLOW-UP**

Upon approval of the bond measure by the voters and the City's issuance of the Bonds, the Housing Department will issue a series of NOFAs to accept applications for affordable housing developments. The Housing Department will bring forward to the City Council funding commitments and appropriation approvals for developments who meet the NOFA requirements. Bond proceeds will be tracked and posted on the Housing Department website.

### **COORDINATION**

This memorandum has been coordinated with the City Manager's Budget Office, the Finance Department and the City Attorney's Office.

### **COMMISSION RECOMMENDATION/INPUT**

On January 11, 2018, the Housing Department presented the draft Housing Investment Plan to the Housing and Community Development Commission describing the proposed approach for managing expenditures of affordable housing funds through FY2021/2022. The Housing and Community Development Commission unanimously approved the Housing Department's strategy and provided the following feedback:

- Rather than establishing a maximum per unit subsidy, the Housing Department may consider establishing a relative maximum unit subsidy based on a percentage of total development costs for each individual project: and
- The Housing Department should consider that high-density developments located near transit may necessitate an increase maximum per unit subsidy.

Due to the timeline necessary in developing the bond allocation plan, the Housing and Community Development Commission did not review the proposed plan.

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**CEQA**

Not a Project. File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

/s/

JACKY MORALES-FERRAND

Director of Housing

For questions, please contact Rachel VanderVeen, Deputy Director, at 408-535-8231.