



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 1, 2018

Approved

D. DSYL

Date

6/4/18

SUBJECT: FY 2017/18 – FY 2021/22 AFFORDABLE HOUSING INVESTMENT PLAN

RECOMMENDATION

Accept the staff report on the FY 2017/18 - FY 2021/22 Affordable Housing Investment Plan.

EXECUTIVE SUMMARY

The need for affordable housing in San José continues to outpace the funding sources necessary to develop apartments accessible to low- and moderate-income individuals and families. Fortunately, there are new opportunities that will help towards meeting the demand.

This document serves as the City's Affordable Housing Investment Plan ("AHIP"). The AHIP summarizes the Housing Department's strategy to meet the housing demand given current funding. It quantifies the available funding for affordable housing and identifies priorities as to how the City intends to invest its affordable housing resources. A key difference between this Plan and the two previously adopted plans is that the previous Investment Plans were focused on expenditures for the next fiscal year. The Housing Department intends to use this document to guide affordable housing development for the next five fiscal years. A summary of the topics covered in the FY 2017/18 - FY 2021/22 AHIP is provided below.

- A City of San José multi-year revenue projection of affordable housing revenue.
- A proposed use of affordable housing funds
- The issuance of Notice of Funding Availability (NOFA) to solicit interest from qualified developers.
- An estimate of the total number of affordable units produced based on projections of all resources and opportunities.

If the proposed AHIP is approved by the City Council, it is estimated that 2,276 new affordable housing units will be added to the 1,099 units currently funded or under construction for a total of 3,375 new affordable units that will be created, under construction or funded by the end of FY 2021/22.

In addition to City funded sites, additional affordable housing will be funded from non-City sources. The total to be funded and built from all sources during the next five years is 5,615 units. This memorandum indicates that despite the availability of new funding sources and organizational capacity to produce more affordable housing, there is a significant shortfall in meeting the affordable housing production goal established by the Mayor and City Council. Additional resources and implementing new strategies are needed to meet the goal of providing 10,000 affordable units.

The Housing Department presented the proposed FY 2017/18 - FY 2021/22 AHIP to the Community and Economic Development Committee on April 23, 2018. The Committee supported the staff recommendations regarding the use of existing affordable housing resources and provided feedback on potential financial strategies to address the shortfall in meeting the affordable housing goal. Staff is bringing the financial strategies to full City Council for consideration in a separate memorandum describing the “Housing Crisis Response Workplan”.

BACKGROUND

The City of San José has been a national leader in the development of affordable housing. Since 1988, the Housing Department has leveraged approximately \$1.1 billion in City resources to attract an additional \$5 billion in public and private capital to create more than 21,100 new and newly-affordable apartments and homes.

There is a Significant Need for Affordable Housing

Despite this success, the need for affordable housing in San José continues to outpace the construction of subsidized housing. In San José, nearly 20% of households are “severely cost-burdened.” This means that residents are paying more than 50% of their gross income on housing, leaving an insufficient income to pay for their other needs such as food, clothing, medical care and transportation.¹ A 2017, survey of 406 urban markets in nine countries ranked San José as the 5th most unaffordable housing market overall, ahead of Los Angeles and San Francisco.² For a household to afford a one-bedroom apartment in the San José metro area requires 130 hours of minimum wage work per week, or more than three full-time minimum wage jobs.³ The high rents place tremendous pressure on individuals and families to crowd into smaller apartments, to endure longer commutes to less expensive housing markets, and to accept

¹ HUD Comprehensive Housing Affordability Strategy (CHAS) for San José City, 2009-2013

² National Housing Conference, *Paycheck to Paycheck 2016*.

³ National Low Income Housing Coalition, *Out of Reach 2016*.

substandard housing. If the current housing trends continue, the regional economy may suffer if local businesses cannot attract and retain employees.

The State of California, through its Regional Housing Needs Allocation (“RHNA”), has projected that San José will need to build more than 3,423 new income restricted homes per year for the next 5.8 years to keep up with population growth.⁴ These goals are divided by income category, with an annual goal for extremely low-income (“ELI”), very low-income (“VLI”), low-income (“LI”), Moderate, and market-rate homes. An explanation of these income categories can be found in **Attachment A** (Affordable Housing Target Populations). 2017 marked the fourth year of the current RHNA production period from January 2014 – October 2022.

Given the limited resources, San José has been able to meet only 33% of its total RHNA goal thus far. Achievements by income category vary significantly. Since the start of the RHNA production period in 2014, San José was able to meet 72% of its total market-rate homes production goal, but met only 7% of its affordable housing goal.

There is a Significant Need for Permanent Supportive Housing

The demand for all types of affordable housing creates an extremely challenging situation for the most vulnerable, unhoused members of the community. More than 4,000 people in San José are homeless, with over two-thirds living on the streets or in encampments. The average life expectancy for individuals experiencing homelessness is 25 years less than those in stable housing. Lack of adequate shelter also exposes unsheltered individuals to victimization and inclement weather.

While some of these residents can resolve their own homelessness through limited or one-time assistance, more than 1,200 people are chronically homeless. The chronically homeless often have mental or physical disabilities that prevent them from becoming economically self-sufficient. Therefore, permanent supportive housing is needed to address the unique needs of chronically homeless residents. These developments often require project-based rental subsidies, as well as on-site social and health services. Most recently, costs for services are typically provided through County of Santa Clara (“County”) funds, while project-based rental subsidies typically come from the Housing Authority of Santa Clara County (“Housing Authority”). Thus, sustainable funding of permanent supportive housing requires a collaboration between cities, counties, housing authorities, and the State.

Affordable Housing Investment Plan

The AHIP is a guiding document that defines how the Housing Department intends to invest funding for the development of affordable housing during a designated time period. The City Council last approved versions of the AHIP in late 2015 (FY 2015/16 – FY 2016/17 AHIP) and early 2017 (FY 2016/17 – FY 2017/18 AHIP). Those plans focused primarily on developing supportive housing opportunities for the chronically homeless by partnering with the County and

⁴ San José Housing Element Report, December 2016.

the Housing Authority on Measure A-funded projects, to serve a range of populations including very low- and low-income households. In addition, the most recent AHIP stated the intention to develop strategies for serving moderate-income households through new policies that would seek to minimize limited City affordable housing resources and maximize private investment to meet this need.

The adopted FY 2016/17 – FY 2017/18 Investment Plan identified the development of 1,196 affordable apartments in San José of which 651 would be set-aside for formerly homeless individuals. A status of all affordable developments that were funded, are under construction, or have been completed thus far in FY 2017/18, is provided in the *Affordable Housing Production Status Report* included with this memo as **Attachment B**. As shown in the attachment, a total of 1,099 apartments have received some form of funding or other approval from the City. An additional 848 apartments are currently pursuing planning approvals or funding applications.

City of San José Funding for Affordable Housing

The Housing Department manages various sources of funding that are dedicated to the development of affordable housing. These funding sources have different funding requirements and restrictions that the City must adhere to and enforce. For more detailed information on the different sources for funding affordable housing and their funding restrictions, please see **Attachment C**.

Funds and Incentives for Affordable Housing have been Eliminated or Reduced

The elimination of redevelopment by the State in 2012 dealt a major blow to the funding available for affordable housing. By law, redevelopment agencies were required to set aside a minimum of 20% of gross tax increment to increase, preserve, or rehabilitate affordable housing. In its final years, redevelopment provided the City with approximately \$40 million a year for affordable housing. A portion of these funds were set-aside to repay bonds that had been issued to support the development of affordable housing. This left approximately \$15 million that could have been used to fund new projects on an annual basis which is now no longer available.

With the exception of the most recent federal budget, federal funds for affordable housing have also been reduced significantly. The HOME Investment Partnership Program is the primary federal funding source that can be used for affordable housing. Since FY 2010/11, the City's HOME allocation has been reduced by 46% from \$4.7 million to \$2.5 million per year. Community Development Block Grant (CDBG) funds can be used to purchase land for affordable housing. CDBG funds have been reduced from \$10.9 to \$9.2 million during the same period. The recently approved federal budget provides a 43.4% increase in the HOME program and a 7.8% increase in CDBG funding.

In the past, the City provided other incentives to support the development of affordable housing. These incentives have either been eliminated or reduced. From 1988-2011, the City offered four construction tax exemptions and fee deferrals for housing developed for lower-income households. From 1988 – 2010, the City also exempted low- and very-low income from the

payment of the Parkland Dedication fees. This exemption was amended in 2010 to require that affordable units pay 50% of the fee. Further in the past, the City provided expedited processing for affordable housing development applications. This service is no longer provided.

New Funding, Legislation, and Opportunities for Affordable Housing Have Emerged

Fortunately, recent decisions by voters and the State Legislature have added resources to partially offset the loss of funds previously discussed. Recent efforts to address the affordable housing need include: County Measure A Funds; State legislation and new programs; and the Santa Clara Valley Transit Authority Affordable Housing Policy. These opportunities are discussed below.

Voters Approve County of Santa Clara Measure A Bonds

Santa Clara County Voters approved the landmark Housing Bond, Ballot Measure A (Measure A) to support new affordable housing in November 2016. Measure A authorizes the County to issue \$950 million in general obligation bonds to be repaid by a new parcel tax for affordable housing. Measure A funds will be used to acquire or improve real property to provide service-enriched affordable housing for vulnerable residents. The target populations include veterans, seniors, the disabled, victims of abuse, the homeless, and individuals suffering from mental health or substance abuse illnesses. At least \$700 million will be used to serve households who are extremely low-income (ELI) and \$100 million will assist very low-income (VLI) households. Up to \$150 million of the total bond may be spent for moderate-income families. This includes a maximum of \$50 million for first-time homebuyer programs. The total production goal is 1,800 apartments of permanent supportive housing; 1,600 rapid rehousing or transition in place opportunities; 800 apartments of ELI housing; and 600 apartments of VLI housing.

The first issuance of \$250 million was approved in October 2017 and the County Board of Supervisors approved its first commitments in November 2017. To date, the Board has committed \$44 million in funding for six developments which include a total of 352 apartments. Three developments totaling 219 apartments will be located in San José at a combined investment of \$30.5 million. The Board has also issued \$25 million in general obligation bonds to fund a down payment assistance program for households earning up to 120% of the area median income (AMI). The Board will be approving additional funding recommendations in June 2018.

New Programs and Recently Enacted State Legislation

In 2016, the California Legislature approved AB 1618, the “No Place Like Home” program, which provides funding to counties to prevent and address homelessness. The program provides a total of \$2 billion in bond funds for the construction and rehabilitation of permanent supportive housing for homeless individuals with mental illness. The State will award the funds in at least four rounds over a four-year period. The County of Santa Clara is estimated to receive a total of

\$10,328,363 based on having the fourth largest homeless population. It is anticipated that the State will release funding next year.

On September 15, 2017, the last day of the 2017 legislative session, the California Legislature responded to the state's housing crisis by passing fifteen bills in a landmark housing package some of which will raise additional funds for affordable housing. The Governor signed all fifteen bills on September 29, 2017. A brief description of the bills most impactful to affordable housing production is provided below:

- *SB2 – The Building Homes and Jobs Act*
SB 2 provides a “permanent source” of funding for affordable housing by imposing a \$75 fee on each recorded document up to a maximum of \$225 per transaction per parcel, estimated to generate \$250 million annually, statewide.
- *SB 35 - Streamlined Approval Process*
SB 35 creates a streamlined entitlements approval process for housing in cities that are not meeting their state-mandated housing goals. As San José did not meet its State affordable housing goals in the last half-cycle, streamlining applies to developments that meet certain defined parameters. This includes the requirement that at least 50% of the units in the development are restricted as affordable.
- *AB 1505 – Inclusionary Housing*
AB 1505 clarified the Legislature's intent to supersede the court decision in *Palmer v. City of Los Angeles*, thereby making inclusionary housing requirements apply to rental developments. As a result of this bill, the City Council has provided a transition period and the City's Inclusionary Housing Ordinance will be applied to rental projects for which applications for First Approval are submitted after June 30, 2018.

Santa Clara Valley Transit Authority (VTA)

In 2016, the Santa Clara VTA established an Affordable Housing Policy that requires at least 20% affordable housing be developed at each VTA site. In addition, the VTA established a portfolio-wide goal of providing 35% affordable units across all of their sites. While individual projects may provide a higher or lower percentage, no project may provide fewer than 20% affordable units.

The Santa Clara VTA manages an extensive portfolio of real estate assets, which may be underutilized and/or have potential to be used for Transit-Oriented Development (TOD). To create TOD areas, the VTA is pursuing the creation of high-density residential development on their properties. In San José alone, the VTA has initiated predevelopment activities on 16 potential sites that could provide residential development, although some of the sites in question may not be consistent with the City's General Plan or other Planning considerations.

City Council Adopts an Ambitious Affordable Housing Goal

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. Many of the ideas described in the Mayor’s memorandum pertain to land use or other policy actions. This memorandum assesses the City’s ability to meet the affordable housing goal with the current funding available and quantifies the amount of funding needed to meet the five year 10,000 unit affordable housing goal.

Housing Department Efforts to Facilitate a More Efficient Lending Process

In response to the pronounced need for affordable housing, the Housing Department has made a concerted effort to maximize resources and improve the efficiency of the lending process. Since 2014, the Department has added four positions to its affordable housing development team, increased its capacity by filling seven vacant positions, and restructured the Production and Asset Management Division to maximize efficiency. The Department has also engaged TCAM asset management consultants to help the City maximize repayments on its existing affordable housing loan portfolio and to develop a robust revenue projection model. The recently completed model is based on a comprehensive review of the Department’s largest affordable housing loans.

Finally, staff has also engaged a consultant to assist with an update of its Multifamily Underwriting Guidelines (the Guidelines). The City last updated the Guidelines in October 2006, yet the economy and affordable housing industry have changed significantly since that time. Most recently, the California Tax Credit Allocation Committee has adopted guidelines that are different from the City’s guidelines in material ways, resulting in challenges for project development. Due to the outdated document, the Housing Department has had to repeatedly seek City Council authorization for exemptions to the Guidelines as it has approved individual projects. This has caused uncertainty for developers awaiting City Council approval, and has added time and cost to the development process.

The updated Guidelines are intended to provide uniform standards and program rules for multifamily rental housing developments funded by the City. Guidelines will provide transparency and certainty for both the City and developers, thereby ensuring a shared understanding of terms/expectations and streamlining the underwriting process. The Department is completing the outreach process and will finalize the Guidelines at the conclusion of the process. The Guidelines will then be taken to the City Council for approval.

ANALYSIS

Proposed FY 2017/18 – FY 2021/22 Affordable Housing Investment Plan

This document serves as the Department’s Affordable Housing Investment Plan. In previous iterations, the AHIP focused on quantifying the available funding for affordable housing and identifying an overarching goal as to how to invest its affordable housing resources. In addition

to these issues, the FY 2017/18 – FY 2020/22 AHIP provides an implementation strategy needed to develop as many affordable homes as quickly as possible. The Proposed AHIP discusses the following elements.

- A multi-year revenue projection of the City’s affordable housing funding sources.
- A plan for the proposed use of affordable housing resources.
- The issuance of Notice of Funding Availability (NOFA) to solicit applications from qualified developers.
- An estimate of the total number of affordable units produced based on projections of all resources and opportunities.

City of San José Multi-Year Revenue Projection

The Housing Department manages the revenue that is collected by the City for the development of affordable housing. The table below details the Housing Department’s expected fund balance by source at the end of the current fiscal year, as well as anticipated additional revenue by source for each of the next four fiscal years. Table 1 shows that the Housing Department has an estimated \$87.6 million to invest in new multifamily affordable rental development at the outset of FY 2018-19. This figure does not include \$29.1 million which was previously committed to existing affordable housing development projects. Total estimated funds available for affordable housing development for the five years encompassed by the investment plan is \$335.1 million.

Table 1 – Five-Year Affordable Housing Funding Projection

Source	FY 17/18 Committed Projects	FY17/18 Available for Development	FY 18/19 Estimated	FY 19/20 Estimated	FY 20/21 Estimated	FY 21/22 Estimated
Low and Moderate Income Housing Fund	\$27,574,000	\$51,960,000	\$41,500,000	\$5,500,000	\$5,500,000	\$5,500,000
Affordable Housing Impact Fees	\$0	\$1,197,000	\$11,995,000	\$46,000	\$0	\$0
Inclusionary Housing Policy In-Lieu Fees	\$0	\$11,400,000	\$10,322,000	\$13,800,000	\$0	\$0
Inclusionary Housing Ordinance In-Lieu Fees	\$0	\$0	\$3,251,000	\$25,000,000	\$55,991,000	\$25,000,000
Housing Authority Litigation Award	\$0	\$19,000,000	\$0	\$0	\$0	\$0
HOME	\$1,500,000	\$4,000,000	\$3,100,000	\$1,000,000	\$1,000,000	\$1,000,000
SB2 State Housing Trust Fund	\$0	\$0	\$0	\$2,000,000	\$3,000,000	\$3,000,000
TOTALS	\$29,074,000	\$87,557,000	\$71,168,000	\$47,346,000	\$65,491,000	\$34,500,000
					Total	\$335,136,000

The projected revenue is received from various one-time and on-going revenue sources. These sources are discussed below.

- *Low and Moderate-Income Housing Affordable Fund (LMIHAF)*
As stated earlier, TCAM has recently completed its review of over 90 of the City's most significant affordable housing assets and created a projected revenue model. This model estimates that the City can anticipate \$5.5 million annually in LMIHAF repayments that can be dedicated to new affordable housing developments over the next five years. Affordable housing developers typically will seek to reinvest in their existing projects after expiration of their tax credit compliance period because the project is eligible to receive new tax credit financing. It is anticipated that some developments will decide to repay their City loans each year when their tax credit compliance period ends. This accounts for the large increase in revenue projected for this Fund in FY 2018/19.
- *Affordable Housing Impact and Inclusionary In-Lieu Fees*
The Housing Department expects to receive revenue based on the development of market-rate housing. For the first two fiscal years (FY 2017/18 & FY 2018/19), the revenue projections are based on Affordable Housing Agreements that have been executed for payment of fees after construction completion. Affordable Housing Agreements are executed by market-rate developers during the entitlement process. The Inclusionary Housing Policy was previously replaced for new projects and Affordable Housing Impact Fee (AHIF) is being replaced after FY 2018/19 by the rental provisions of Inclusionary Housing Ordinance (IHO). Therefore, no new fees are expected from the AHIF or the Inclusionary Housing Policy In-Lieu fee after FY 2019/20. The IHO revenue projections assume that the 15,000-unit market rate goal is met and assumes an increase in market-rate production. Since the IHO in-lieu fee is set at \$125,000 per rental affordable unit and \$153,000 for for-sale affordable unit, it is anticipated that the majority of developers will pay the fee rather than provide the affordable housing. Because the fee is collected at the time the certificate of occupancy is issued, the increase in the collection of IHO in-lieu fees is expected to be generated two years after the IHO is imposed on rental developments.

It should be noted that of the project AHIF revenues, there is \$3.4 million in AHIF revenue that can only be used for moderate-income for-sale housing. These funds are not included in the revenue chart because the chart only includes funds that can be used for multi-family housing. These funds will be included in the total revenue projections for all sources.

- *HOME*
The majority of the annual HOME allocation is currently used to fund rapid rehousing subsidies for homeless residents. The TCAM model estimates that there will be future repayments of HOME funds that have been included in the revenue projections. These HOME repayments can be reinvested into the development of new affordable housing. The estimate is for \$3.1 million in FY 2018-19 and \$1 million in each of the subsequent years.

- ***SB2 State Housing Trust Fund***
SB2 establishes a State Housing Trust Fund. The legislation requires that 70% of funds collected after January 1, 2019, be provided to local governments. The funds will be distributed to jurisdictions using the federal Community Development Block Grant (CDBG) formula. It is estimated that SB2 will generate approximately \$250 million a year of which 83% will be allocated to cities that already receive a direct allocation of CDBG funds. Based on this formula, staff is estimating that by the second year, the City will receive an allocation of approximately \$2 million in the first year and \$3 million annually.
- ***One-Time Payments***
The Investment Plan incorporates \$52 million in one-time funding from the following sources:
 - 1) An anticipated \$30 million in repayments from developments, owned by affiliates of the Santa Clara County Housing Authority, in FY 2018/19 for five complete projects to be deposited in the Low and Moderate-Income Housing Asset Fund (LMIHAF); and
 - 2) Housing Authority Litigation Award (HALA) funds of which \$19 million has been designated for development. (Note: Per the Mayor's March Budget Message, this number was reduced from \$22 million by \$3 million from the report that went to the Community and Economic Development Committee on April 23, 2018).

Proposed Use of Affordable Housing Funds

FY 2015/16 - 2016/17 Plan Limited Use of Funds to Very-Low and Low-Income Rental Housing

As stated, the Housing Department estimates it will have nearly \$335.1 million available for the production of affordable housing over the next five years. The FY 2015/16 - FY 2016/17 Investment Plan (<http://www.sanjoseca.gov/DocumentCenter/View/53880>) presented different options for how the City could spend its affordable housing resources. These options included new rental housing development, homeownership programs, or major home repair programs.

The FY 2015/16 - FY 2016/17 Investment Plan directed that the City's affordable housing resources be invested in multifamily, rental housing development. In addition, this plan presented the case for prioritizing multifamily housing for the homeless. The subsequent AHIP refined this priority to invest in Measure A projects to maximize resources and create mixed-income affordable developments. The City contribution was to be used only for Very Low Income (VLI) and Low Income (LI) apartments within the Measure A projects.

The Proposed Plan limits the Per Unit Subsidy Regardless of Income or Population

For the Proposed FY 2017/18 - FY 2021/22 AHIP, the Housing Department recommends that the City Council continue to prioritize affordable housing rental development. However, instead

of limiting the investment of City funds to VLI and LI apartments, the Housing Department is proposing to cap the per unit subsidy to \$125,000 per unit regardless of the target income or population. In addition to focusing on the per unit subsidy, the Housing Department will also place greater emphasis on “project readiness” in order to expedite the creation of new affordable housing opportunities.

This approach will allow the City to continue to fund much needed ELI apartments in addition to the VLI and LI apartments. The change in target incomes is also needed to meet the funding requirements of the LMIHAF. Redevelopment law requires that 30% of all LMIHAF be reinvested in ELI housing. The City will continue to work collaboratively with the County and the Housing Authority to build housing for the homeless.

A key difference between the Proposed AHIP and the two previously-adopted plans is that the Housing Department intends to use this document to guide affordable housing development for five fiscal years. The Proposed AHIP will only be modified if there is a desire to change the population to be served, a change in the programs to be funded there is a major influx of revenue from a new funding source. Until either of those situations occur, the Proposed AHIP will set the direction for use of existing revenue sources through FY 2021/22. As always, individual developments will be brought to the City Council for funding approval.

City Resources Will Fund 3,375 Apartments in Five Years

As previously stated, the Housing Department’s proposed strategy is to fund a range of affordable apartments based on readiness, with a maximum funding limit of \$125,000 per apartment. Based on this cap, the Housing Department is setting the following production estimates.

Table 2 – Estimated Affordable Housing Production Goal

YEAR	CITY ESTIMATED PROJECT FUNDING	ESTIMATED PRODUCTION GOAL
Attachment B		1,099
2017/2018	\$87,557,000	528
2018/2019	\$71,168,000	569
2019/2020	\$47,346,000	379
2020/2021	\$65,491,000	524
2021/2022	\$34,500,000	276
Totals	\$335,136,000	3,375

The Housing Department estimates that at \$125,000 per unit, 700 new affordable apartments can be funded from the resources available in FY 2017/18. However, there are three developments (172 apartments) that already have partial funding from the City but need to complete the planning process before construction funds can be approved. Therefore, only 528 of the units are

unduplicated apartments and are included in the chart above for FY 2017/18. It should also be noted that most of the FY 2017/18 funds will not be committed to developments by City Council until FY 2018/19.

Based on the amount of projected revenues, the total estimated number of apartments that will be completed during the five-year period is 3,375 affordable deed-restricted apartments. Options to increase affordable unit production are discussed later in this document.

Notice of Funding Availability to Be Released Upon City Council Approval of Plan

When the City accumulates sufficient funds to invest in new affordable housing developments, it issues a Notice of Funding Availability (NOFA) stating the City's intent to fund affordable housing developments that meet the City's priorities. The NOFA also references funding requirements as specified in its Multifamily Underwriting Guidelines.

It is the Housing Department's intention to issue a NOFA in the amount of up to \$87.5 million for developers that can meet the City's funding priorities. As stated, the priority for these funds will be targeted to developments that meet the City's \$125,000 per unit cap, regardless of the target income or population. The Housing Department will emphasize "project readiness" in order to expedite the creation of new affordable housing opportunities. The Department is also proposing to provide additional bonus points for developments that meet the following priorities:

1. Cost Savings: Developments that utilize cost saving construction techniques, such as modular housing to provide affordable apartments at a cost that is less than the \$125,000 per unit subsidy.
2. Affordable Housing and Sustainable Communities (AHSC) Capability: Projects that demonstrate the capability to successfully apply for funding from the State's AHSC Program may be prioritized from a separate application category. AHSC funding brings in additional affordable housing infrastructure funding for the City. However, these projects require additional time to develop. A condition of the Program is that the City funds the project prior to receiving an award from the State.
3. Homeless Units: The Department has made significant progress in creating a system to address the needs of our homeless residents by working with both the County and the Housing Authority. Additional units are needed to address the needs of this population.

Additional Resources are Needed to Meeting the City's 10,000 Unit Affordable Housing Goal

If the proposed AHIP is approved by the City Council, it is estimated that 2,276 new affordable apartments will be added to the 1,099 units listed in Attachment B. This will create a total of 3,537 new affordable rentals that will be funded, under construction, or completed, by the end of FY 2021/22. In addition, it is estimated that Measure A and the No Place Like Home Program will have a capacity to fund 2,460 apartments during this same timeframe. Staff estimates that only 10% of the Measure A units will be added to the affordable housing stock because it is

likely the City will have funds invested in 90% of the Measure A developments. Therefore, staff estimates that the County funds will only add 246 unduplicated apartments to the total number of affordable housing units produced.

Given the level of the current inclusionary housing in-lieu fee and the required level of affordability for on-site apartments, staff estimates that the majority of developers will opt to pay the in-lieu fee instead of producing the apartments. It should be noted that if developers choose to build the apartments on site, the revenue projections would be reduced since the Housing Department would no longer be collecting the Inclusionary Housing in-lieu fees.

The Housing Authority has indicated that they plan to produce approximately 600 affordable apartments on land that they own or plan to purchase. At this time, they are estimating that they have sufficient funds to develop the housing without additional City funding. Currently, there is a 4% tax credit and tax-exempt bonds development located in San José that is not seeking local subsidy. This development is projected to build 300 affordable apartments for low-income seniors.

Table 3 below summarizes the total number of apartments that can be created in San José from all existing funding sources and opportunities.

Table 3 – Number of Affordable Housing Apartments That Can be Created in Five Years

OPPORTUNITIES	2017-2022 ESTIMATED FUNDING	ESTIMATED UNITS	ESTIMATED NEW UNDUPLICATED UNITS
City of San José			3,375
Measure A	\$400,000,000	2,460	246
No Place Like Home	\$10,328,000	60	0
Inclusionary On-site		50	50
VTA sites			427
Housing Authority Sites	N/A	600	600
Private Development	N/A	300	300
Teacher Housing Project		100	100
City of San José Moderate-Income Housing AHIF Funds	\$3,386,000	17	17
Accessory Dwelling Units		500	500
Totals	\$413,714,000	4,027	5,615

Given that the total number of affordable units projected to be funded from all sources during the next five years is 5,615 units, it is clear that additional resources and incentives are needed to meet the City’s 10,000 affordable unit goal. At \$125,000 per unit, the City would need an additional \$548.1 million in order to fund the balance of 4,385 units. Potential strategies for addressing this shortfall are provided in the City’s workplan to address the overall housing crisis that will also be heard on June 12.

PUBLIC OUTREACH

The Housing Department met with affordable housing developers, stakeholders and housing advocates to develop the list of proposed strategies.

EVALUATION AND FOLLOW-UP

Once the City Council approves the AHIP, the Housing Department will issue a NOFA in the next month and begin accepting applications. The Housing Department will bring forward funding commitments and appropriation approvals for developments who meet the NOFA requirements. The quarterly production report, posted on the City's website, will provide an update on the progress towards meeting the 10,000 unit affordable housing goal.

COST IMPLICATIONS

The Housing Department will issue a NOFA in the amount of up to \$87.5 million for affordable housing developments that can meet the City's funding priorities as described in this memorandum. Funding requests for specific developments will be brought forth individually to City Council for approval.

COORDINATION

This memorandum has been coordinated with the Department of Planning Building and Code Enforcement, the Office of Economic Development, the City Attorney's Office, and the City Manager's Budget Office.

COMMISSION RECOMMENDATION

On January 11, 2018, the Housing Department presented the draft Investment Plan to the Housing and Community Development Commission (HCDC) describing the proposed approach for managing expenditures of affordable housing funds through FY2021/2022. The HCDC 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.

HONORABLE MAYOR AND CITY COUNCIL

June 1, 2018

Subject: FY 2017/18 - FY 2021/22 Affordable Housing Investment Plan

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It should be noted that the Housing Department presented the proposed FY 2017/18 - FY 2021/22 AHIP to the Community and Economic Development Committee on April 23, 2018. The Committee supported the staff recommendations regarding the use of existing affordable housing resources and provided feedback on potential financial strategies to address the shortfall in meeting the affordable housing goal. Staff is bringing the financial strategies to full City Council for consideration in a separate memorandum describing the “Housing Crisis Response Workplan”.

CEQA

Not a Project, File No. PP17-008, General Procedure & Policy Making resulting in no changes to the physical environment.

/s/
JACKY MORALES-FERRAND
Director of Housing

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Attachments:

Attachment A – Affordable Housing Target Populations

Attachment B – Affordable Housing Production Status Report

Attachment C – City Funding Sources for Affordable Housing

ATTACHMENT A
Affordable Housing Target Populations

The following table defines income categories as a percentage of area median income and gives Santa Clara County’s relevant income limits according to household size.

Income Category	Percent of Area Median Income (AMI)	Incomes and Occupations	
		1-Person Household	4-Person Household
Extremely Low-Income (ELI)	Up to 30% AMI	\$25,100	\$35,800
Very Low-Income (VLI)	31-50% AMI	\$41,800	\$59,700
Low-Income (LI)	51-80% AMI	\$59,400	\$84,900
Median Income	100%	\$79,300	\$113,300
Moderate-Income	81-120% AMI	\$95,150	\$135,950
Above-Moderate Income	Above 120% AMI	Above \$95,150	Above \$135,950

Source: <http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k12.pdf>

Housing Strategies for Different Income Groups

The following table defines different types of households according to their incomes and sample jobs, defines housing prices that are affordable for each group, and lists typical sources of subsidy and affordable housing programs that can assist each type of household.

Housing Need ¹	Affordable Rent/Home Prices	Potential Tools	Potential Strategies/Funding Sources	Subsidy Required
Homeless and Fixed Income: \$0-\$12,500 annually; up to 15% AMI (ELI) Jobs: Farmworkers, Laborers, Sorters; Disabled/SSI recipients	Rent: \$0 to \$315/month	<ul style="list-style-type: none"> • Rent subsidies • Supportive housing • Master Leasing • Shared Housing • Transitional Shelter 	<ul style="list-style-type: none"> • Program Income • HOME Funds • Housing Auth. Vouchers • Housing Impact Fees • Mental Health Svcs Act • Other Health Funds • Social Impact Bonds 	<ul style="list-style-type: none"> • Section 8 Voucher • Rental Subsidy - \$12,000 a year • Supportive Housing - \$150,000-200,000 per unit • Master Leasing - \$10,000 per unit/year
Working Poor: \$12,500-\$53,750 annually; 15% - 50% AMI (ELI to VLI) Jobs: Waiters, Hairdressers, Nursing Assistants, Gardeners, Nail Technicians	Rent: \$315-\$1,350/month	<ul style="list-style-type: none"> • Rent subsidies • ELI housing units • Shared housing • SROs • Secondary Units 	<ul style="list-style-type: none"> • Housing Auth. Vouchers • Housing Impact Fee • State Perm Source • Public benefits zoning • HOME Funds 	<ul style="list-style-type: none"> • Section 8 Voucher • Development Subsidy: \$100-\$150K per unit

¹ Income bands overlap as Area Median Incomes vary by household size. Household sizes assumed are as follows: Homeless and Fixed Income, 1 person; all other categories, 1 person to 4 people.

Housing Need¹	Affordable Rent/Home Prices	Potential Tools	Potential Strategies/Funding Sources	Subsidy Required
<p>Support Economy: \$42,000-\$136,000 annually; 50% - 120% AMI (LI to Mod-income) Jobs: Bookkeepers, Social Workers, Police Officers, Firefighters</p>	<p>Rent: \$1,050 to \$3,400/month Home Price: \$102,200 - \$349,500</p>	<ul style="list-style-type: none"> • Development subsidies • Smaller units • Downpayment assistance 	<ul style="list-style-type: none"> • Housing Impact Fee • State Perm Source • Public benefits zoning • Inclusionary Zoning and In-lieu Fees • Development Incentives • HOME Funds 	<ul style="list-style-type: none"> • Development Subsidy: \$80,000-\$100,000 per unit • Second Mortgage Assistance for Mod-income: \$0 to \$482,000 per unit
<p>Driving Economy: \$59,500-\$180,000 Annually; 80% - 160% AMI (Mod- to Above-Mod Income) Jobs: Accountants, Post-secondary School Teachers, Computer Programmers; Doctors, Nurse Practitioners, Managers, Legal Professionals</p>	<p>Rent: \$1,500 to \$4,500/month Home Price: \$102,200-\$598,100</p>	<ul style="list-style-type: none"> • Affordable by Design • Downpayment assistance 	<ul style="list-style-type: none"> • Inclusionary Zoning and In-lieu Fees • Development Incentives • State Housing Funding, including Perm Source 	<ul style="list-style-type: none"> • Second Mortgage Assistance for Mod-income: \$0 to \$482,000 per unit

ATTACHMENT B
AFFORDABLE HOUSING PRODUCTION AND PRESERVATION REPORT - JANUARY 1, 2018 THROUGH MARCH 31, 2018

B.1 - Production Activities

Affordable Housing Developments Completed During Fiscal Year 2017-2018

The City of San Jose approved and/or provided funding for the completed affordable housing projects listed below. These projects were completed during FY 2017-2018.

Project	Council District	Type	Developer	City Investment	Unit Breakdown by Type					Total Units	Unit Breakdown by Affordability				Status	% Completed	Completion
					PSH Units	RRH Units	Non-Senior Units	Senior Units	Mgr. Units		# ELI Units	# VLI Units	# LI Units	# Mod Units			
The Plaza	3	Rehab	Abode	\$2,200,000	0	46	0	0	1	47	0	46	0	1	Completed	100%	2017
Vermont House	6	Rehab	Abode	\$3,000,000	16	0	0	0	1	17	16	0	0	0	Completed	100%	2018
Totals				\$5,200,000	16	46	0	0	2	64	16	46	0	1			

Approved Affordable Housing Developments - Under Construction

The City of San Jose approved and/or provided funding for the affordable housing projects listed below.

Project	Council District	Type	Developer	City Investment	Unit Breakdown by Type					Total Units	Unit Breakdown by Affordability				Status	% Completed	Estimated Completion
					PSH Units	RRH Units	Non-Senior Units	Senior Units	Mgr. Units		# ELI Units	# VLI Units	# LI Units	# Mod Units			
Laurel Grove Family	6	New	HACSC	\$0	20	0	61	0	1	82	23	58	0	0	Under Construction	65%	2018
Second Street Studios	3	New	First Community Housing	\$16,900,000	134	0	0	0	1	135	34	100	0	0	Under Construction	72%	2018
Metropolitan South	7	New	Charities Housing	\$3,700,000	0	10	20	0	1	31	12	18	0	0	Under Construction	75%	2018
Park Avenue Seniors	6	New	HACSC	\$0	0	20	0	79	1	100	10	89	0	0	Under Construction	20%	2019
Renasant Place	7	New	Charities Housing	\$0	160	0	0	0	2	162	56	104	0	0	Under Construction	15%	2019
Villas on the Park	3	New	PATH/Affirmed	\$16,600,000	83	0	0	0	1	84	42	41	0	0	Under Construction	1%	2019
Totals				\$37,200,000	397	30	81	79	7	594	177	410	0	0			

Affordable Housing Developments in Predevelopment - Unit Counts are Estimates

The City of San Jose has provided predevelopment funding to the following affordable housing developments. **

Project	Council District	Type	Developer	City Investment	Unit Breakdown by Type					Total Units	Unit Breakdown by Affordability				Status	% Completed	Estimated Completion
					PSH Units	RRH Units	Non-Senior Units	Senior Units	Mgr. Units		# ELI Units	# VLI Units	# LI Units	# Mod Units			
North San Pedro	3	New	First Community Housing	\$2,500,000	50	50	33	0	1	134	58	76	0	0	Predev/Commitment	N/A	2020
Leigh Avenue Seniors	6	New	first Community Housing	\$9,000,000	20	23	0	20	1	64	0	63	0	0	Predev/Commitment	N/A	2020
Quetzal Gardens	5	New	RCD	\$9,984,212	23	24	0	0	1	71	47	0	23	0	Predev/Commitment	N/A	2020
226 Balbach	3	New	SAHA	\$200,000	0	0	0	0	0	71	0	0	0	0	Predevelopment	N/A	N/A
Evans Lane	6	New	Abode	\$400,000	0	0	0	0	0	60	0	0	0	0	Predevelopment	N/A	N/A
Gallup/Mesa	10	New	Eden Housing	\$200,000	0	0	0	0	0	41	0	0	0	0	Predevelopment	N/A	N/A
Totals				\$22,284,212	93	97	33	20	3	441	105	139	23	0			

(**Note: Until funding for a project is fully committed or an affordability restriction recorded, the Unit Type count and Unit Affordability count will not be included)

Totals	City Investment	Unit Breakdown by Type					Total Units	Unit Breakdown by Affordability				
		PSH Units	RRH Units	Non-Senior Units	Senior Units	Mgr. Units		# ELI Units	# VLI Units	# LI Units	# Mod Units	
Units Completed	\$5,200,000	16	46	0	0	2	64	16	46	0	1	
Units Approved - Construction/Pending	\$37,200,000	397	30	81	79	7	594	177	410	0	0	
Units in Predevelopment	\$22,284,212	93	97	33	20	3	441	105	139	23	0	
TOTAL - PRODUCTION	\$64,684,212	506	173	114	99	12	1099	298	595	23	1	
Total Units Set-Aside for Formally Homeless		679										

ATTACHMENT B

AFFORDABLE HOUSING PRODUCTION AND PRESERVATION REPORT - JANUARY 1, 2018 THROUGH MARCH 31, 2018

B.2 - Prospective Affordable Housing Developments

The Housing Department is aware of the following affordable projects. Developers of the projects below have submitted an Affordable Housing Compliance Plan to the Housing Department and/or have stated their intent to Planning to build deed-restricted units.

Project	Council District	Type	Developer	City Investment	Total Units (estimate)	Unit Breakdown by Affordability				Status	Est. Completion
						# ELI Units	# VLI Units	# LI Units	# Mod Units		
Race Street Family	6	New	CORE	\$14,500,000	116	TBD	TBD	TBD	TBD	Predevelopment	TBD
Race Street Seniors	6	New	CORE	\$11,250,000	90	TBD	TBD	TBD	TBD	Predevelopment	TBD
Roosevelt Park	3	New	First Community Housing	\$10,125,000	81	TBD	TBD	TBD	TBD	Predevelopment	TBD
Meridian/Page	6	New	Charities	\$11,250,000	90	TBD	TBD	TBD	TBD	Predevelopment	TBD
295 E. Virginia Street	3	New	AMG	None	301	TBD	TBD	TBD	TBD	Predevelopment	TBD
397 Blossom Hill Rd	2	New	Charities	\$21,250,000	170	TBD	TBD	TBD	TBD	Predevelopment	TBD
Totals				\$68,375,000	848	0	0	0	0		

Attachment C

City Funding Sources for Affordable Housing

This attachment provides an overview of the available funding sources for affordable housing and how they may be used.

Low and Moderate Income Housing Asset Fund

Redevelopment funding set aside for affordable housing was the major source of the City's financial resources until redevelopment's dissolution in 2011. Upon dissolution of the Agency, the City elected to retain the housing assets and the affordable housing functions of the Agency. The City now administers the affordable housing functions of the Agency as the housing successor subject to the provisions of the California Redevelopment Law ("CRL") which relate to affordable housing. Since that time, annual loan repayments and full loan repayments of the City's redevelopment-funded loans are deposited into the Low and Moderate Income Housing Asset Fund ("LMIHAF"). On October 12, 2013, The Governor signed into law Senate Bill 341 which amended provisions of the CRL relating to the functions performed by housing successors.

Unlike private lenders which generate income through receipt of set payments of principal and interest on outstanding loan balances, the City receives loan repayments from a share of properties' "residual receipts." Residual receipts are funds in excess of those needed to pay properties' operating expenses. While critical to the City's ability to operate and invest in new affordable apartments, the City's receipt of loan repayments is secondary to the social purpose of providing affordable, well-maintained properties that benefit the public. In fact, many cities receive minimal interest or residual receipt payments on their affordable housing loans. Homeless or deeply-affordable developments typically do not provide any annual repayments. San José, by comparison, has a relatively robust portfolio that provides a predictable stream of revenue that is used to help manage its portfolio of affordable apartments.

Eligible Uses

Under the revised CRL, eligible uses for LMIHAF include the development and major rehabilitation of rental housing with specific income targeting. Housing successors must spend all remaining funds on the development of housing affordable to lower-income households (less than 80% of the area median income (AMI)), with at least 30% for rental housing for extremely-low income households (less than 30% of AMI), and no more than 20% for households earning between 60-80% of AMI. Up to 50% of housing financed by a jurisdiction over a ten-year period may be provided for units of deed restricted rental housing for seniors.

Inclusionary Housing In-Lieu Fees

The Citywide Inclusionary Housing Ordinance ("Ordinance") requires that, in new market-rate developments of 20 or more homes, 15% of the homes be made affordable in both rental and for-sale developments. The Ordinance provides several alternative ways that the developer can meet its requirement, including payment of an in-lieu fee and construction of affordable homes off-site. When a developer chooses an alternative compliance option, including the payment of an in-lieu fee, the percentage requirement is increased to 20%.

The Ordinance's predecessor for new developments in redevelopment project areas was the City's Inclusionary Policy ("Policy"). The Policy has a requirement that 20% of newly-constructed for-sale homes be made affordable to and sold to moderate-income households. Like the Ordinance, the Policy allows payment of in-lieu fee revenue as an option to building the required affordable homes. Both the Policy and redevelopment project areas survived dissolution of the redevelopment agencies.

Eligible Uses

Eligible uses for Inclusionary in-lieu fees include new rental and for-sale construction for restricted affordable housing developments for ELI, VLI, LI, and moderate-income households.

Affordable Housing Impact Fee

On November 18, 2014, the City Council adopted the Affordable Housing Impact Fee ("AHIF") Resolution establishing the AHIF program. Under AHIF, new market-rate rental housing developments are charged a fee based on net rentable square footage to address the impact that type of development has on the need for affordable worker housing.

Eligible Uses

Eligible uses for AHIF funds include new rental and for-sale construction for restricted affordable housing developments for ELI, VLI, LI and moderate-income workers, per a prescribed methodology for varying levels of affordability. The methodology reflects the AHIF Nexus Study's analysis of market-rate developments' impacts.

Federal Community Development Block Grant (CDBG) Program

The City receives approximately \$8.4 million in CDBG funds annually. Projects receiving assistance must serve low and moderate income persons (defined by HUD as members of a family earning no more than 80% of AMI) and/or prevent or eliminate slums and blight.

Eligible Uses

Eligible uses for CDBG include public service, public facilities and improvements, code enforcement, economic development activities, planning and capacity building, rehabilitation, homeownership down payment assistance loans, and fair housing activities. Eligible activities that would support an affordable housing development include acquisition of real property and associated infrastructure work. CDBG specifically prohibits funds to be used for new housing construction.

Federal HOME Investment Partnerships (HOME) Program

The City receives approximately \$2.4 million in HOME funds by formula from the U.S. Department of Housing and Urban Development ("HUD") on an annual basis. It is the largest Federal block grant to local governments to create affordable housing for low-income individuals and families. Approximately \$1.3 million in HOME funds is programmed for Tenant Based Rental Assistance (rent subsidies) annually for homeless individuals and families. The remaining \$1 million in annual revenue is set-aside for rental development.

Eligible Uses

Eligible housing activities include the investment in affordable rental housing and homeownership through the acquisition (including downpayment assistance to homebuyers), new construction, reconstruction, or rehabilitation of deed restricted affordable housing. Funds may also be used to provide direct rental assistance to a low-income household.

HUD Litigation Award

The City of San José's Housing Authority ("CSJHA") is a public entity formed under State Housing Authority law. Housing authorities typically receive rental vouchers, administrative funds, and other resources from HUD. However, CSJHA has an agreement with the Housing Authority of the County of Santa Clara's ("HACSC") under which the CSJHA authorizes HACSC to administer the CSJHA's rental voucher and other HUD programs on its behalf. The agreement requires HACSC to consult the CSJHA Board on policy and strategic decisions. The Board of CSJHA is the City Council, and its Executive Director is the Director of Housing.

On behalf of the CSJHA, HACSC filed suit against HUD in the U.S. Court of Federal Claims for breach of contract by HUD resulting in underpayment of funds. The suit was successful, and CSJHA received \$36.3 million in a litigation award in 2016 ("HUD Litigation Award Funds"). CSJHA may use these litigation award funds for purposes authorized under Housing Authority law for affordable housing purposes related to "housing projects" as defined under State law.

Eligible Uses

Eligible uses for the funds include rental subsidy vouchers, outreach and case management supporting placement of households in certain low-income developments, and new construction and rehabilitation of low-income housing developments and related programming for low-income residents.

SB2 State Housing Funds

SB 2 provides a "permanent source" of funding for affordable housing by imposing a \$75 fee on each recorded document up to a maximum of \$225 per transaction per parcel, estimated to generate \$250 million annually, statewide. It estimated that the City will begin to receive funds in FY19/20 of approximately \$2 million in the first year and \$3 million on-going.

Eligible Uses

Eligible uses for SB2 include homeless solutions such as rapid rehousing, emergency shelters, and navigation centers. Acquisition and rehabilitation of foreclosed or vacant homes. Development activities include, predevelopment, development, acquisition, rehabilitation, and preservation of multifamily rental housing that is affordable to ELI, VLI, LI and moderate-income households including operating subsidies. Affordable rental and homeownership housing for workforce housing earning up to 120% of the AMI or 150% of the AMI in high-cost areas.