



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Rosalynn Hughey  
Jacky Morales-Ferrand

**SUBJECT:** SEE BELOW

**DATE:** March 9, 2020

Approved

Date

3/13/2020

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

## RECOMMENDATION

- (a) Accept the Calendar Year 2019 Annual Progress Report on the Implementation of the San José 2014-2023 Housing Element; and
- (b) Accept the Fiscal Year 2018-2019 Housing Successor to the Redevelopment Agency Annual Report.

## OUTCOME

Approval of this request will enable staff to submit both the City's Annual Progress Report on the Housing Element to its General Plan and the Housing Successor Report to the State of California, as required by April 1, 2020. 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 for housing, transportation, and parks.

## EXECUTIVE SUMMARY

State law requires jurisdictions to prepare an annual progress report each calendar year to detail the implementation of their Housing Elements to their General Plans and to submit the report to HCD and OPR. Since the passage of Assembly Bill 879 (Grayson) in 2017, the legislation has provided that it applies to charter cities such as San José. Recently, the California legislature

passed several other bills intended to hold jurisdictions accountable for meeting their housing production goals. Maintaining a Housing Element that complies with HCD's reporting requirements qualifies jurisdictions for State funding programs.

The Housing Element establishes a strategy to meet a jurisdiction's housing production goals defined by its Regional Housing Needs Allocation (RHNA). San José's RHNA goal for the current 8.8-year period from January 2014 through October 2022 is 35,080 housing units. This equates to an average required 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-Income (VLI), and Low-Income (LI) households as defined by HCD.

In calendar year 2019, San José continued its strong focus on production in issuing building permits for 2,425 new residential units. This number constitutes an 18% decrease from the number of building permits issued in 2018. The 2019 building permits were issued for 1,572 market-rate units (97 % of the annualized goal) and 853 affordable units (36% of the annualized goal).

<b># of Units Issued Building Permits in 2019, by affordability level</b>	
Market rate units	1,572
Affordable units	
Deed restricted	134
Moderate Income, Non-deed restricted	719
<b>Total</b>	<b>2,425</b>

The City continues to be well ahead in its market-rate housing production, although significantly behind in its affordable housing production. During the first six years of the 8.8-year RHNA period (68% of the way through the period), the City has met 94% of its market-rate housing goal but only 18% of its affordable housing goal. In 2019, the majority of building permits issued were for accessory dwelling units (416), followed by those for single family units (160). Seventy building permits were issued for new multifamily housing (1,794 units) in and around Downtown in Council Districts 3 and 7; building permits for multifamily were also issued in District 2, 4, 5 and 6. Of these 1,568 units, 1,434 were market-rate units and 134 were deed-restricted affordable to lower-income persons. The deed-restricted development is known as North San Pedro Studios and is in District 3. As production under RHNA is counted once building permits are issued, the City's recent commitments to new affordable housing production should appear in future RHNA cycles.

<b>Building Permits Issued in 2019, by Unit Category</b>	
ADU	416
Single Family	160
Multi-Family	70

Ways to spur housing production continue to be a focus at the local, State, and regional levels. In 2019, the State of California enacted several new housing bills to help spur housing production including. The following State laws became effective Jan. 1, 2020: AB 1763, which gives affordable housing an enhanced density bonus; and SB 330, which limits down-zonings and places limits on a jurisdiction's ability to change development standards and zoning once a "preliminary application" is submitted. Staff will provide an overview to City Council in April on these laws and their implications for the next Housing Element update. Regionally, the Metropolitan Transportation Commission's Committee to House the Bay Area (CASA) framework was finalized in January 2019. All these efforts should support the City's ongoing work to meet its five-year goals in its Housing Crisis Response Plan.

The Housing Successor to the Redevelopment Agency Annual Report for Fiscal Year 2018-19 is required to be submitted with the Annual Housing Element Progress Report. The Housing Successor report provides information on the City's use of affordable housing assets created through redevelopment. The City's major asset is loan repayments from loans originated with 20% redevelopment funds for affordable housing, now known as the Low and Moderate Income Housing Asset Fund (LMIHAF). The Housing Successor has met the required expenditure and senior housing tests, as outlined in the Housing Successor Report (**Attachment E**).

## **BACKGROUND**

The Housing Element establishes a comprehensive policy framework to implement San José's residential strategies and outlines the City's plan to meet its affordable and market-rate housing production goals. The determination of regional housing need is made by HCD, the California Department of Finance, and regional Councils of Government (COGs) throughout the State. 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, which 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 Council of Government. ABAG oversees housing goals over nine counties and 101 cities. ABAG is responsible for distributing the RHNA to 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. The City's current RHNA is slightly higher than the previous 2007-14 RHNA cycle allocation of 34,721 units. The current cycle's goal equates to an annual production rate of 3,986 units. It should be noted that despite the imbalance of housing and jobs in San José, the City already provides a disproportionate share of the housing (relative to jobs) in the County. Staff will present an overview of the new RHNA cycle to Council in April.

The RHNA itself is divided into four income categories that encompass all levels of housing need. HCD combines Extremely Low-Income (ELI) and Very Low-Income (VLI) units into the VLI category, but because ELI is an important focus in San José, this memorandum breaks them

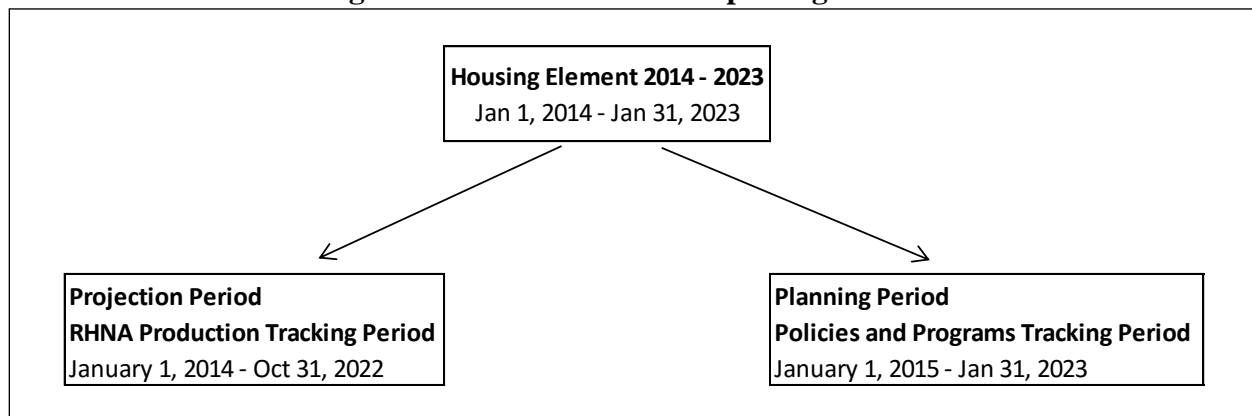
out. A large portion of San José's current RHNA goal (42%) is focused on ELI, VLI, and Low-Income (LI) households, as defined by HCD and as shown in Figure A below. All levels of affordability are expressed as a percentage of Area Median Income (AMI) for Santa Clara County.

**Figure A – HCD 2019 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)	\$30,750	\$35,150	\$39,550	\$43,900	\$47,450	\$50,950	\$54,450	\$57,950
Very Low Income (50% AMI)	\$51,250	\$58,550	\$65,850	\$73,150	\$79,050	\$84,900	\$90,750	\$96,600
Lower Income (80% AMI)	\$72,750	\$83,150	\$93,550	\$103,900	\$112,250	\$120,550	\$128,850	\$137,150
Median Income (100% AMI)	\$92,000	\$105,100	\$118,250	\$131,400	\$141,900	\$152,400	\$162,950	\$174,350
Moderate Income (120% AMI)	\$110,400	\$126,150	\$141,950	\$157,700	\$170,300	\$182,950	\$195,550	\$208,150

The City Council adopted its 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.<sup>1</sup> There are two reporting periods associated with the Housing Element, as shown in Figure B below. Building permit goals are measured against an 8.8- year projection period from January 1, 2014 to October 31, 2022. However, progress on policies and programs (Attachment D in the adopted Housing Element plan) have been tracked since 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 OPR. All jurisdictions, including charter cities, must submit annual reports.

<sup>1</sup> The adopted Housing Element is posted at <https://www.sanjoseca.gov/your-government/departments/planning-building-code-enforcement/planning-division/citywide-planning/housing-element>

*Changes to the Annual Progress Report*

In response to the passage of several housing bills, the State has increased reporting requirements for cities and counties. Since calendar year 2018, the Annual Progress Report has had to list the number of development applications received, planning entitlements issued, building permits issued, and certificates of occupancy issued. The Annual Progress Report must also report on projects that applied for streamlining under SB 35 (Weiner), if these projects were approved, and potential affordable housing developments with filed applications.

As required by the State, the Annual Progress Report reports on the City's continued progress with implementing programs and policies to increase, preserve, and improve the supply of affordable housing; to invest in activities to end homelessness; to promote equitable development; and to create healthy and sustainable communities and neighborhoods.

With the acceptance of a completed Annual Progress Report by the City Council, staff will submit the report to HCD and the Governor's Office of Planning and Research by the April 2, 2020 deadline. It is important to note that maintaining housing element compliance qualifies jurisdictions for State and regional 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, SB 2 Planning Grants, One Bay Area Grant, and the Building Equity and Growth in Neighborhoods program.

The Housing Successor to the Redevelopment Agency Annual Report for Fiscal Year 2018-19 (Housing Successor 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 housing 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 the State Health and Safety Code.

**ANALYSIS**

*Housing Market Overview*

San José is one of the most expensive cities in the nation to rent or to buy a home. Market rents are significantly out of reach for many San José workers including teachers, construction workers, and retail salespersons. Average effective rents increased 2% between 2018 and 2019 and increased 21% over the past five years.<sup>2</sup> In Q4 2019, the average effective rent<sup>3</sup> in San José was \$2,480.<sup>4</sup> Figure C compares rents and incomes needed to afford deed-restricted, rent-stabilized, and Class A market-rate housing in San José.

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<sup>2</sup> Costar Q4 2014 – Q4 2019.

<sup>3</sup> Effective rent is defined as asking rent less rent concessions, such as move-in specials, one month free, etc.

<sup>4</sup> Costar Q4 2019.

**Figure C: Comparison of Rents and Incomes<sup>5</sup>**

Income Level	1-Bedroom		2-Bedroom	
	Max Income	Rent	Max Income	Rent
Extremely Low-Income (30% AMI)	\$35,150	\$879	\$39,550	\$989
Very Low-Income (50% AMI)	\$58,550	\$1,464	\$65,850	\$1,646
<b>Rent Stabilized</b>	<b>N/A</b>	<b>\$1,630</b>	<b>N/A</b>	<b>\$1,969</b>
Low-Income (80% AMI)	\$83,150	\$2,079	\$93,550	\$2,339
Moderate-Income (110% AMI)	\$115,610	\$2,890	\$130,075	\$3,252
<b>Market-Rate Class A</b>	<b>N/A</b>	<b>\$2,859</b>	<b>N/A</b>	<b>\$3,464</b>
Moderate-Income (120% AMI)	\$126,150	\$3,154	\$141,950	\$3,549

In 2019, the average residential vacancy was 4.9% for all housing, 8.3% for Class A housing, 4.5% for Class B housing, and 4% for Class C and F housing.<sup>6</sup> The lower vacancy rates for Classes B, C, and F housing indicate the relative scarcity of lower rent apartments in San José. Definitions for CoStar building classes are included as Attachment A.

Home sales prices increased by 41% over the last five years<sup>7</sup> and by 2% in the last year. In Q4 2019, the median home sales price was \$1,070,500.<sup>8</sup> Homes are taking slightly longer to sell, with days on the market rising from 35 to 38 days over the previous year. For-sale homes are affordable to higher-income households, but only 2118% are affordable to households earning the median income.<sup>9</sup> In Q4 2019, the 30-year fixed interest rate was 3.72%, which was 20% lower than last year's rate of 4.64%, making homes more affordable for borrowers.<sup>10</sup>

#### Summary of Planning Entitlements proposed in 2019

In 2019, 40 residential entitlement applications were proposed for the development of 10,203 units, of which 90% were market-rate and 10% were affordable. Three streamlining applications—one under SB 35 and two under AB 2162 (Chiu)—totaling 711 units, were submitted. One AB 2162 application was approved on January 13, 2020, and one is currently under review. **Attachment B, Table A** provides project-specific details on entitlement applications.

Entitlements for 3,439 units were completed in 2019, of which 2,725 were market-rate and 714 were affordable. **Attachment B, Table A2** provides details on completed entitlements.

<sup>5</sup> Income and rent levels based on 2019 California HCD Income Limits, Rent Stabilized data from City of San José Rent Stabilization Program; Market rents from CoStar as of 1/6/20.

<sup>6</sup> CoStar defines Housing Class based on building characteristics such as location, size, quality of construction and materials, and amenities.

<sup>7</sup> Santa Clara County Association of Realtors, Q4 2014 – Q4 2019.

<sup>8</sup> Santa Clara County Association of Realtors, December 2019.

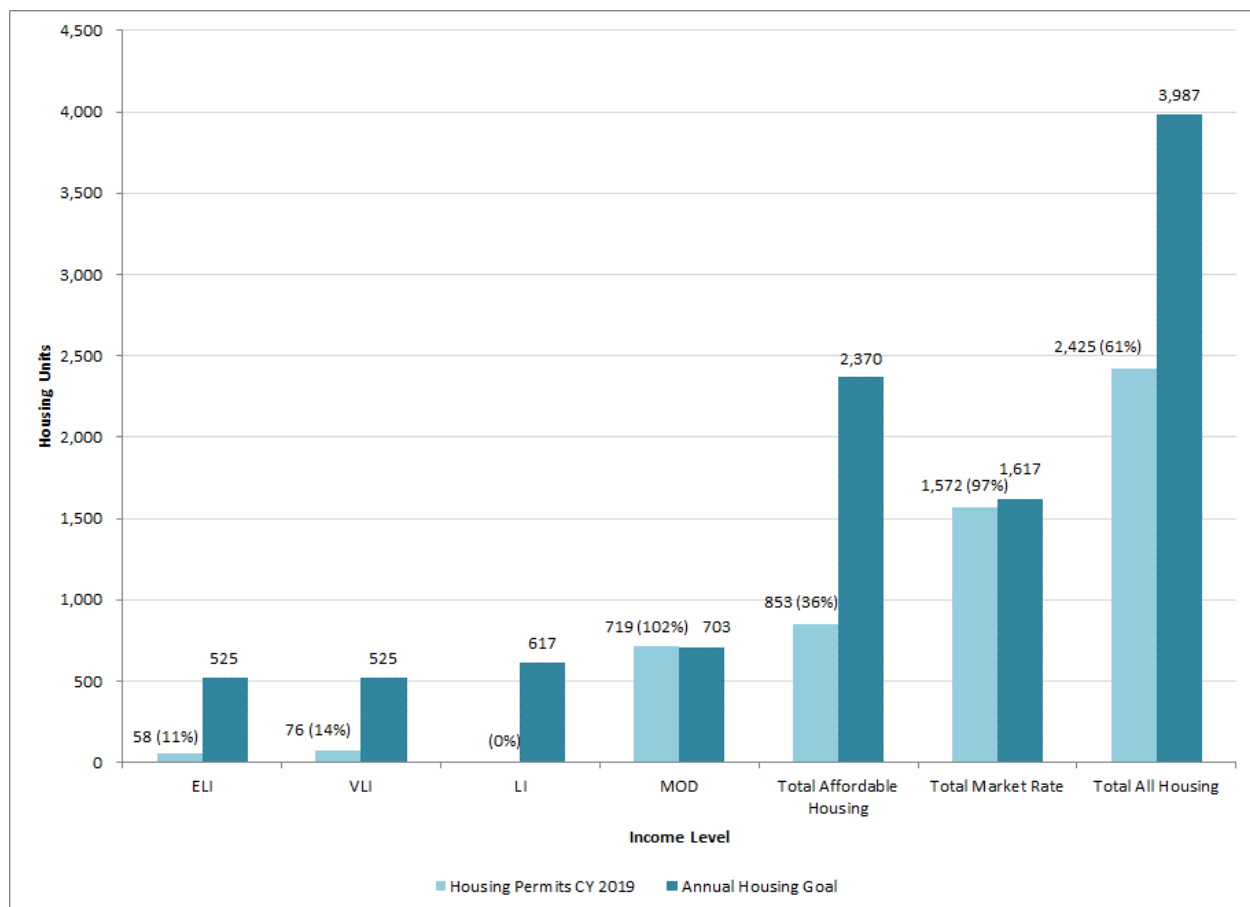
<sup>9</sup> National Association of Home Builders (NAHB) Housing Opportunity Index Q43 2019.

<sup>10</sup> Freddie Mac 30-year Fixed Rate Mortgage December 2019.

*Summary of Building Permit Activity in 2019*

In calendar year 2019, the City issued building permits for 2,425 new residential units. Although this represents an 18% decrease from the 2018 permits issued, over 7,400 units currently have approved planning entitlements and have not started construction. Of those units building permits issued, 1,572 units were market-rate, while 853 were affordable. **Figure D** illustrates this 2019 activity by income category.

**Figure D – Calendar Year 2019 RHNA Building Permit Performance**

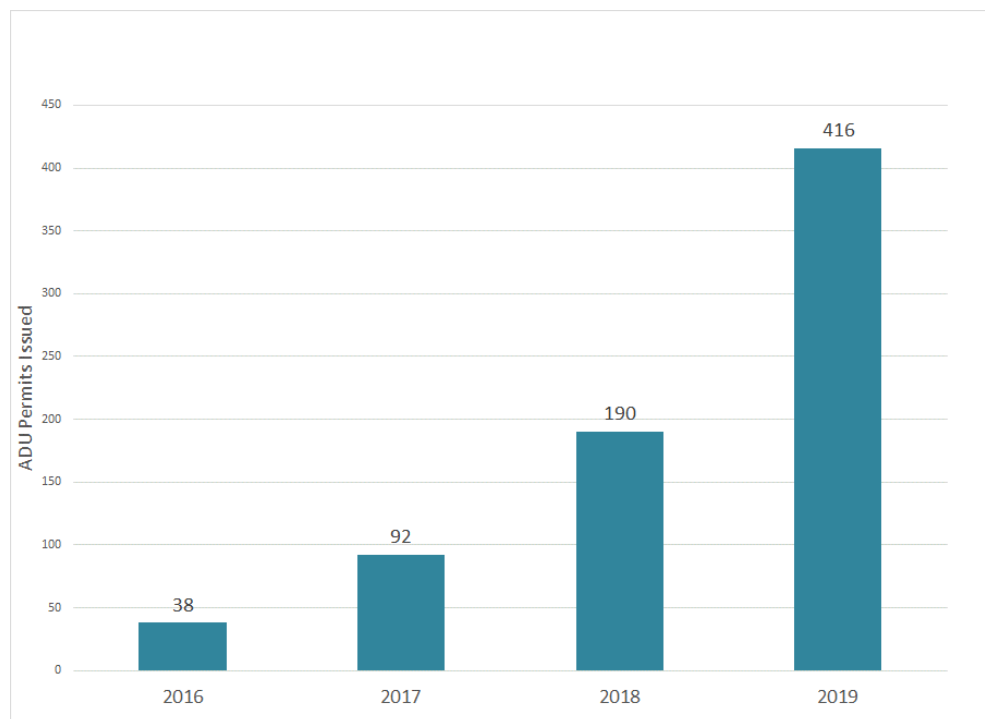


Affordable units are those offering rents affordable to extremely low-, very low-, low- and moderate-income households (as detailed in Figure A above). Figure D shows the City's annual production of extremely low-, very low-, and low-income housing, which remained well below the annual goal. However, the City slightly exceeded the year's moderate-income goal. Of the total affordable homes that received building permits, 134 are deed-restricted affordable and 719 may be counted as affordable to moderate-income households based upon current market

conditions.<sup>11</sup> **Attachment C** provides a detailed description of the methodology staff used for the 2019 moderate-income analysis. The City's previous methodology accepted by HCD for 2017 and 2018 was slightly modified to include utility costs per HCD's direction and to make other adjustments for the softening market, as is described in Attachment C.

In 2019, 416 building permits were issued for accessory dwelling units (ADUs). This is more than twice the number of building permits issued in 2018, and over 19 times the number of building permits issued in 2014 for ADUs. This steep increase reflects the positive impact from the City's work to facilitate ADUs through ordinance changes and permit process enhancement efforts, as well as State ADU legal reform. As shown **Figure E**, following Zoning Ordinance updates approved by the City Council in 2016 and 2018 to comply with State law and encourage the construction of ADUs, ADU building permit issuances significantly increased.

**Figure E: ADU Permits Issued 2016-2019**



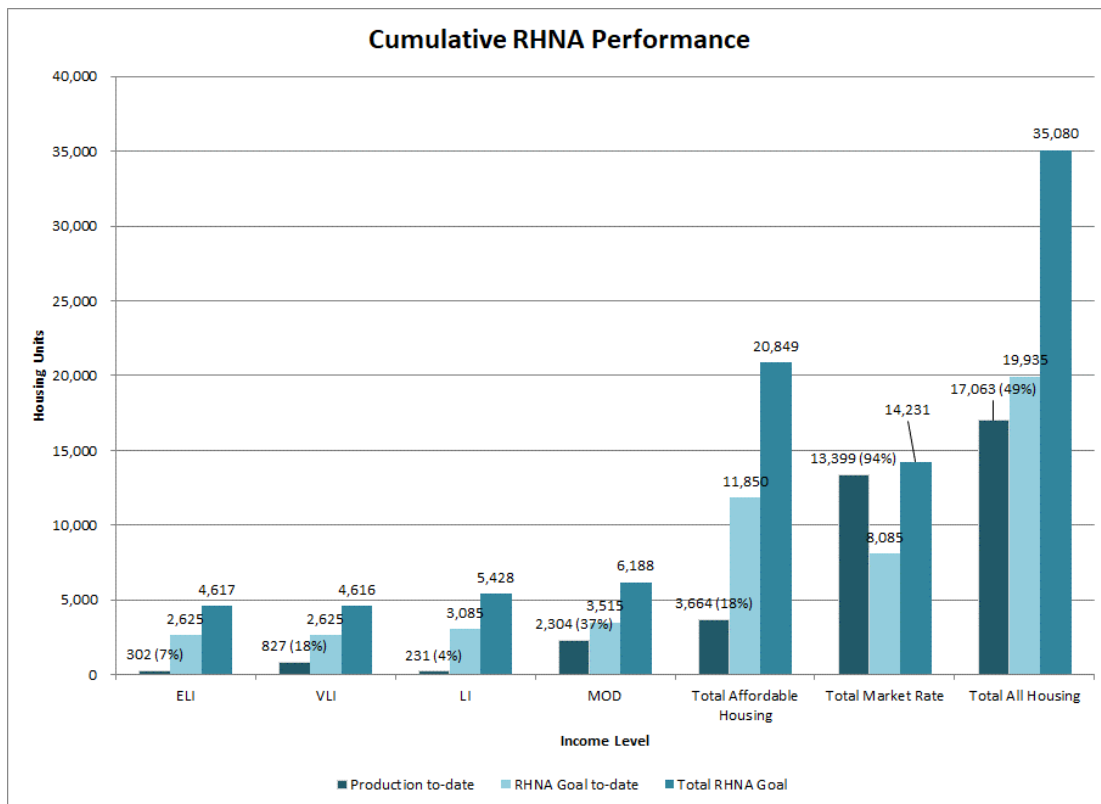
In 2018 and 2019, ADUs were counted in the “above moderate-income” category because staff did not have data on the rents homeowners intend to charge or whether ADUs would be used for family members. However, it is likely that some ADUs will be affordable to moderate-income households. If initial rents data can be collected in future years, staff will accordingly reflect those ADUs under moderate-income units.

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<sup>11</sup> HCD guidelines indicate that where actual rent information is unavailable, permitted units can be counted in the moderate-income category based on market conditions. However, it should be noted that it is uncertain how long the moderate-income units will remain affordable to moderate-income households because of the lack of recorded affordability restrictions.

*Summary of Cumulative Building Permits (2014-2019)*

Figure F compares the City's performance to date with the overall goal for the current RHNA cycle (2014 – 2019). During the first six years of the 8.8-year RHNA projection period – approximately 68% of the way through the current RHNA cycle – the City has met 94% of its market-rate housing goal but only 18% of its affordable housing goal. The chart indicates that San José is ahead of schedule in delivering market-rate housing and is significantly behind schedule in delivering all income levels of affordable housing. This slower pace in building affordable units generally reflects the scarcity of local, State, and federal subsidies to fill the gap, as well as the time and difficulty in assembling land and competitive affordable housing financing layers, that are needed to build that many affordable homes.

**Figure F – 2014-2022 RHNA Building Permit Performance***Building Permit Type and Location*

In 2019, ADUs and single family detached units saw significant increases in their share of all units with building permits issued. Approximately 74.3% of the units with issued building permits were multifamily, 17.2% were ADUs, 6.3% were single family detached, 2.0% were single family attached, and 0.3% were in 2- to 4-unit buildings. (Percentages do not sum up to exactly 100% due to rounding.) In 2018, over 80% were multifamily, 9% were for single family

attached, 6.5% were ADUs, 3.8% were single family detached, and 0.3% were in 2- to 4-unit buildings. **Attachment D** is a map that shows where 2019 building permits were located by types. The majority of multifamily permits issued are for sites in General Plan Growth Areas.

### Certificates of Occupancy

In 2019, 627 units received certificates of occupancy, 200 less than in 2018. Of the units that received certificates of occupancy, 412 were market-rate, and 215 were affordable. Approximately 75% of the units that received certificates of occupancy were in multifamily development projects, and approximately 20% were ADUs. The remaining units were single family homes. Although fewer units received certificates of occupancy in 2019 than 2018, over 7,500 units are currently under construction in San Jose, including several large multifamily projects. Six projects alone – 188 W St James, Japantown Corporation Yard, MIRO, Modera San Pedro Square, Sparq, and The Grad – will add over 2,300 units and are expected to come to market over the next couple of years. Details on certificates of occupancy can be found in **Attachment C, Table A2**.

### Progress on Programs and Policies

In addition to reporting on housing production, HCD requires annual updates on the City's programs and policies that support housing production. **Attachment B, Table D** provides a comprehensive progress update.

### Units Rehabilitated, Preserved, and Acquired

**Attachment B, Table F** summarizes the units that were preserved or rehabilitated in 2019. While preservation and rehabilitation do not count toward RHNA production goals, it is important to note that the City took action to extend affordability restrictions and/or rehabilitate 11 affordable housing projects with 1,233 apartments to ensure their continued long-term viability. Of the 1,233 apartments, 10 were affordable for extremely low-income residents, 934 were for very low-income, and 253 were for low-income residents.

### Units Lost to Expiring Affordability Restrictions

No affordable apartments in San José lost their restricted affordability in 2019.

### New Funding and Strategies

In response to the housing crisis, State lawmakers have passed several important pieces of legislation that will assist cities in addressing affordable housing needs. In 2020-21, the City expects to get its first funds to be used for affordable housing funding from SB 2 (2017), which will generate a small amount of on-going funding from real estate transfer taxes. The State estimates that San Jose initially will receive approximately \$3.4 million per year in SB 2 funds. The 2019-20 State Budget allocated \$1.75 billion toward the production and planning of new

housing. Locally, Santa Clara County has committed \$282,780,000, in Measure A and No Place Like Home Funds, located in 23 affordable housing developments in six cities.

In 2017, the Bay Area's Metropolitan Transportation Commission (MTC) created a blue ribbon committee called CASA to develop a comprehensive strategy to address the region's housing crisis. CASA's strategy was finalized in January 2019 and called for a package of State laws that would further protect tenants, remove barriers to housing production, increase funding, and coordinate lending, reporting, and technical assistance in a regional body. Resulting State legislation passed in 2019 to approve a Bay Area Housing Finance Authority, which can raise and administer new regional sources for affordable housing production, as well as issue tax-exempt bonds and employ other powers to facilitate development. The Authority's lead agency is the executive board of the Association for Bay Area Governments, and the governing board is composed of the members of the MTC.

The City Council approved the Housing Crisis Workplan in June 2018, a strategy to facilitate the development of 25,000 housing units, including 10,000 affordable units, by 2023. City staff continue to implement its Housing Crisis Response Workplan with the goal of building 15,000 market-rate units and 10,000 affordable units over five years. A status update on the Housing Crisis Response Workplan was provided on September 24, 2019, and another is planned for the Community and Economic Development Committee meeting in April 2020.

In early 2019, the City announced selections from its 2018 \$100 million Notice of Funding Availability (NOFA). This NOFA will support 11 proposed developments that will add 1,144 new affordable apartments at varying affordability levels, including permanent supportive housing for the homeless. Thus far from this 2018 NOFA, the City has committed \$46 million to five developments providing 416 units of affordable housing. Staff plans to request the City Council to make funding commitments to the other six applicants in the City's managed pipeline as they progress through their predevelopment work and meet the City's readiness requirements.

With the above funding increases, strategies, and policy changes, it is very likely the City will see a boost in affordable housing production for the next several years. However, without additional funding, the City will continue to fall short in meeting both its RHNA and its 10,000 affordable unit production goals. Assuming a need for \$125,000 in City subsidy per unit, the City would need an additional \$520 million to fund the balance of 4,229 units to meet the City Council's 10,000 affordable unit goal.

Finally, the City is making efforts to highlight opportunities for affordable housing development near transit hubs. On September 11, 2018, the City Council approved the response to the Grand Jury's Report "Affordable Housing Crisis: Density is our Destiny." In that response, staff agreed to identify sites in the Adequate Sites Inventory of the City's Housing Element that are located within one-half mile of a transit hub. A transit hub is defined as a high-quality transit corridor. The list and location of sites are included as **Attachment F**. There are 465 inventory sites located within one-half mile of a transit hub.

**Housing Successor to Redevelopment Agency Annual Report**

The Housing Successor to the Redevelopment Agency Annual Report for Fiscal Year 2018-19 (Housing Successor Report) is included as **Attachment E**. The Successor Report is required to be submitted with the Annual Housing Element Progress Report. The City is the Housing Successor for the former Redevelopment Agency. The Housing Successor Report provides information on receipts and expenditures in the Low and Moderate Income Housing Asset Fund (LMIHAF), which contains repayments of loans made with original redevelopment 20% funds.

The Low and Moderate Income Housing Asset Fund (LMIHAF) is the City's major asset. The Housing Successor Report shows that the City had \$679,805,702 in LMIHAF assets at the end of FY 2018-19. Besides information on aggregate expenditures, the document includes several expenditures "tests" that the Housing Successor must meet. The City met all of them, as follows.

**Excess Surplus Test**

The "Excess Surplus Test" requires that the Housing Successor cannot have unencumbered funds that exceed the aggregate amount deposited into the fund during the preceding four fiscal years. If a Housing Successor fails to meet the excess surplus test, it may be required to transfer excess LMIHAF funds to the State. The Report indicates that the aggregate amount deposited into the LMIHAF fund during the four prior years was \$149.8 million. The unencumbered amount is currently \$143.7 million. Therefore, the Housing Successor meets this test because the balance does not exceed the aggregate amount deposited for the test period.

The amount of unencumbered funds is large at this time; however, it is important to note that funds do not become officially "encumbered" until loan documents are executed and a loan closes. The City's model at this time is to focus on funding construction/permanent loans, which are disbursed later in the life of a new housing development. Currently, developers obtain non-City sources of predevelopment and the LMIHAF funding requires the borrower own the land. Therefore, during projects' predevelopment period, funds may be committed by the City Council and yet remain "unencumbered" until the projects have obtained the remainder of their financing and are ready to start construction.

The City's 2018 \$100 million competitive Notice of Funding Availability was oversubscribed, and 11 developments were identified as eligible to receive funding commitments when they meet the City's readiness tests ("the managed pipeline"). The City Council has made funding commitments of \$46 million for five of the 11 projects in the Housing Department's managed pipeline. None of these loans have been encumbered because the developers are still assembling the remainder of their financing. Developers of the other six developments are still pursuing environmental clearances and/or planning entitlements. They then will seek City Council commitments and assemble other funding sources.

Therefore, of the unencumbered \$143.7 million, the City expects to encumber at least \$100 million as each of the 2018 NOFA development's construction/permanent loan documents are executed. The timeframe is expected over the next 6-18 months. In addition, the Department is considering purchasing sites for affordable housing and other near-term uses of the LMIHAF

funds. Additionally, in the medium-term, the Department plans to issue a \$40 million NOFA for new construction developments later in 2020 to form a new managed pipeline.

### Senior Housing Test

Redevelopment law places a limit on the amount of funds that can be spent on affordable housing 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 only 28% of the City's expenditures over this period went to fund senior affordable housing. Therefore, the Housing Successor meets the "senior housing test" and can continue to fund senior affordable housing developments with LMIHAF funds.

### Extremely Low-Income Test

Redevelopment law also requires at least 30% of LMIHAF funds to be expended for the development of rental housing affordable to extremely low-income households earning less than 30% of the area median income and that no more than 20% of LMIHAF can be expended for households earning between 60-80% of area median income. The total housing development expenditures between January 1, 2014, through June 30, 2019, were \$26,504,703. Of the total amount, \$11,343,587 or 43% was spent to build affordable homes for households earning at or below 30% of area median income. San José's 43% expenditure for extremely low-income households in the period 2014 to mid-2019 far exceeds the State's 30% expenditure requirement.

The City also has its own goal to fund housing for extremely low-income households. In April 2019, the City Council approved the Housing Department's Affordable Housing Investment Plan. The City Council's direction requires that the Department dedicate 45% of all future project funding to extremely low-income households.

While the City spent 43% of LMIHAF funds spent on extremely low-income households under this particular test, it is important to note that the State's test has a different time period (January 1, 2014, through June 30, 2019) than does the City Council's new, forward-looking goal of 45% established in April 2019.

## CONCLUSION

The City continues to work towards meeting its regional housing needs by implementing the programs and policies outlined in the Housing Element. In calendar year 2019, 40 residential entitlement applications were proposed for the development of 10,203 units, of which 90% were market-rate and 10% were affordable. The City issued building permits for 2,425 new residential units and issued certificates of occupancy for 622 units.

# of Units Issued Building Permits in 2019, by affordability level	
Market rate units	1,572
Affordable units	
Deed restricted	134
Moderate Income, Non-deed restricted	719
<b>Total</b>	<b>2,425</b>

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

After the City Council accepts the Annual Progress Report and the Housing Successor Report, staff will submit the approved document to HCD and the Governor's Office of Planning and Research by the State-mandated April 1, 2020 deadline.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memorandum has no effect on Climate Smart San José's energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the March 24, 2020 City Council meeting.

### **COORDINATION**

This memorandum was coordinated with the City Attorney's Office.

### **COMMISSION RECOMMENDATION/INPUT**

This report will be presented to the Housing and Community Development Commission on March 12, 2020.

### **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

HONORABLE MAYOR AND CITY COUNCIL

March 9, 2020

**Subject: 2019 Housing Element and 2018-19 Housing Successor Annual Report to State of California**

Page 15

of ELI housing aligns with the regional “All The Way Home” campaign to end veterans’ homelessness in Santa Clara County, as well as the Community Plan to End Homelessness.

Additionally, as one of the central elements of the City’s General Plan, the Housing Element is consistent with the General Plan’s Major Strategies, goals, policies, and action items 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/

JACKY MORALES-FERRAND  
Director, Department of Housing

/s/

ROSALYNN HUGHEY  
Director, Department of Planning, Building  
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### **Attachments:**

Attachment A: CoStar Building Class Definitions

Attachment B: San José Housing Element Annual Progress Report for CY 2019 (Tables A-G)

Attachment C: Methodology for Moderate-Income Unit Analysis CY 2019

Attachment D: Map of Building Permits Issued CY 2019

Attachment E: Housing Successor Annual Report FY 2018-2019

Attachment F: List and Location of Inventory Sites Near Transit Hubs