



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Mayor Mahan
Councilmember Campos
Councilmember Tordillos
Councilmember Cohen
Councilmember Ortiz

SUBJECT: Alternative Financing for Affordable Housing **DATE:** April 6, 2026

Approved

Date: 4/6/26

RECOMMENDATION

Direct the City Manager to:

1. Return to City Council by August 2026 with policy recommendations for Alternative Financing for Affordable Housing Production based on the March 11, 2026, Information Memorandum from the Housing Department, including additional analysis of:
 - a. The range and mix of affordability levels that the public-private partnerships contemplated in the memo may support, including the feasibility of reaching Very Low-Income affordability levels (30% - 50% AMI), as referenced in the memorandum from Councilmember Ortiz dated January 27, 2026;
 - b. The “trade-offs” between total number of units and depth of affordability for the existing City approach to affordable housing production with each of the policy options in the information memo; and
 - c. How these policies may benefit or impact the existing pipeline of affordable and market rate housing projects in San José.
2. Include as part of the report an analysis of lease-revenue financing, including but not limited to issuance of certificates of participation, for funding affordable housing.

BACKGROUND

Since 1980 California has needed to build more than 2.7 million homes just to keep home prices in line with the rest of the country. The failure to do so has resulted in a California median home price of over \$850,000— more than twice the national median of about \$405,000. This lack of housing supply in dynamic regions like the Bay Area has also [limited national GDP growth by an estimated \\$1.4 trillion](#), costing the average worker \$6,775 in annual income.

Locally, the shortage of homes combined with high job growth has led to 112,000 San José households experiencing significant housing cost burdens; of these, 90,000 are low-income, representing 63% of families at or below 80% of area median income. As residents become more rent burdened, they are more likely to fall into homelessness or be displaced—creating a problem that is growing faster than we can fix with our current approach.

While we know that increasing housing supply across the board is the answer, we have simply not been able to produce enough new homes to meet our RHNA goals. However, we have an opportunity to truly innovate in San José by combining market rate and affordable housing production strategies. [The March 11, 2026 Information Memo](#) from the Housing Department outlines options for creating mixed income communities in a way that may spur more overall production of new homes and stabilize rents for San José families.

As funding sources for dedicated affordable housing— from gap financing and vouchers to tax credits— have become more competitive and scarcer, we must find ways to continue to build more homes. The information memo outlines a series of innovative combinations of financing streams and strategies to bridge the gulf between revenues and expenses that so often impedes housing production. These proposals mirror emerging best practices from other jurisdictions— most interestingly, a “funded Inclusionary Housing Ordinance (IHO)” model that may strengthen the city’s IHO and deliver more affordable units alongside market-rate housing.

[Portland adjusted its IHO](#) with the support of tenants’ rights organizations and affordable housing advocates to include a funded component last year; the result has been an influx of new developments which integrate affordable and market-rate units. Evanston in Illinois is exploring a similar model under which the city would take an equity stake in inclusionary housing projects, a proposal that parallels one of the options in the information memorandum. Other cities, including Baltimore, New Haven, and Chicago, have implemented or taken steps towards including a funding component in their IHOs, reflecting increasing interest in this strategy for spurring affordable housing development.

Given the intense financial pressure facing San José families and the risk of displacement posed by the cost of housing on our most vulnerable households, we should move swiftly to assess and implement these options. The feasibility analysis should align with the City’s recently updated IHO, which provides alternative compliance options for extremely low and very low-income units. For example, the master-lease financing and IHO combination assessment may provide the development community a viable pathway for voluntarily including ELI units to fulfill IHO requirements.

In addition to these options, we propose that staff analyze the feasibility of lease-backed financing as a strategy for supporting the development of affordable housing. In particular, the City should explore certificates of participation (COPs), which enable local governments to raise capital for affordable housing developments without requiring voter approval for the issuance of general obligation bonds. San Francisco authorized the use of COPs for housing development

last year, and other cities, including Chicago and New York City, have implemented other forms of lease-revenue financing to support housing development. These strategies will not be a panacea, but taken as a whole, they may represent valuable new tools to bring us one step closer to making San José a place where anyone can afford to live and thrive.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.