COUNCIL AGENDA: 3/12/13
ITEM: 4.2

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: February 28, 2013

Approved [signature] Date 3/1/13

SUBJECT: FOLLOWUP TO COUNCIL QUESTIONS FROM NOVEMBER 13, 2012 HOUSING NEEDS AND STRATEGIES STUDY SESSION

RECOMMENDATION

It is recommended that the City Council accept this report, which responds to questions posed at the November 13, 2012 study session on affordable housing, and provide comments and direction to staff on future actions.

OUTCOME

The City Council will receive answers to questions about affordable housing funding and housing strategies, and will have the opportunity to comment and provide direction to staff to inform the completion of the Five Year Housing Investment Plan.

EXECUTIVE SUMMARY

San Jose's ability to meet the housing needs of all of its residents has been impacted by several factors in recent years, including changes to the financial sector, changing demographics, and reductions in funding at the federal and State levels, with the most recent example being the State's dissolution of redevelopment agencies.

This memorandum provides information to the City Council on the scope of the problem and potential actions in response to questions posed at the November 13, 2012 study session on housing needs and strategies in San Jose. Information is provided regarding: (1) the amount of money the City would need were it to replace funds lost as a result of reduced State and federal assistance, (2) possible opportunities for new revenue sources, including State legislative responses and potential local funding sources, (3) current funding that is available for affordable housing and for addressing homeless issues, and (4) opportunities for partnerships and regional responses.

BACKGROUND

On November 13, 2012, the City Council held a study session on housing needs and strategies. Guest panels – composed of housing developers, nonprofit housing agencies, service providers, and an economist – presented information on the history of affordable housing in San Jose, the market forces that impact housing needs, housing needs for different populations across incomes, funding and budget challenges, and potential strategies and policies to explore.

There were a number of key messages that came out of the Study Session. These included:

1. Housing is an economic prosperity imperative – we want and need a strong economy, but job holders need places to live.
2. San Jose's population will change over the next 20+ years, with most growth in the 20-34 and 55+ age groups.
3. Other demographic changes will impact the City's housing needs, including an increase in intergenerational families and ethnic diversity.
4. Different strategies are needed to meet the housing needs of different economic segments of the population.
5. The private sector cannot produce truly affordable housing without subsidies; though reducing the cost of housing makes it more affordable for all.
6. Funding sources for the development of affordable housing are drying up, particularly with the loss of redevelopment. Without new sources, there will be a substantial reduction in production in San Jose and throughout the State.

At the conclusion of the Study Session, staff was asked to return to the City Council in February of 2013 to address several key issues. Specifically:

1. The amount of funding necessary to fill the gap created by reductions in funding at the State and Federal levels, including the impact from the dissolution of the Redevelopment Agency
2. Information about changes in the financial landscape, including potential State legislation that will facilitate building affordable housing
3. Potential funding sources or new revenue that could fill the 20% set-aside funding gap
4. The amount of funding projected from future loan repayments and other revenue
5. Opportunities for regional or county-wide partnerships
6. Opportunities for the Council to utilize budgeted funds to address homeless issues
7. The impact of tax exemptions for affordable housing and options to reduce the resulting impact

The Housing Department is in the process of developing its Five Year Housing Plan, which will govern the City's policies and programs for housing, including how funds are targeted, for the period of July 1, 2012 to June 30, 2017.

This memorandum responds to the Council's questions and recommends specific actions in response.

ANALYSIS

The quality, quantity, and affordability of San Jose's housing stock impacts our community, our neighborhoods, and our economic competitiveness. The decisions we make about our housing stock have a direct impact on people's decisions of whether to take a job, whether to move away, whether to live in units that are too large or too small for their family size, whether to drive long distances to their workplace, or whether to overpay for housing. When people overpay for housing, the money they have for other goods and services is reduced, impacting our economy. When people move farther away from their jobs to find housing they can afford, our streets and highways get more crowded and our air quality is impacted. When people overcrowd in houses and apartments, neighborhoods are impacted by cars and noise. And, when housing is not affordable, employers have a harder time recruiting and retaining talented job seekers.

San Jose has long recognized the benefit of providing housing to all our residents, including those who cannot afford the area's high rents and home prices without assistance. Since 1988, the City has financed the development, preservation, and rehabilitation of more than 20,000 units of affordable housing.

Reduction in Local Tools for Affordable Housing

20% Funds

The dissolution of redevelopment in California eliminated the single most important tool available to local governments to meet their housing and economic development needs. By law, redevelopment agencies were required to set aside a minimum of 20% of gross tax increment for efforts that increased, preserved, or improved the affordable housing stock. With the end of redevelopment, those funds – known as Low and Moderate Income Housing funds – were lost.

San Jose's active affordable housing program has relied greatly on the availability of these Low and Moderate Income Housing Funds (20% Funds). In recent years, San Jose's 20% Fund generated about $40 million annually for affordable housing, though a portion of this amount was committed to annual debt service (in FY 2011-12, approximately $25 million was set aside for that purpose).

These funds could be used on a "pay-as-you-go" basis, or used to issue additional debt. In 1990, the City Council approved an Expanded Housing Program, which directed staff to borrow against tax increment to finance housing development. As funds grew over time, more funds were borrowed to support more development. As a general rule, for every one dollar of tax increment, the City was able to borrow ten dollars. Thus, $15 million in annual increment could generate $150 million in funding for new housing projects.

Other than redevelopment funding, the City has not appropriated monies for affordable housing. However, for many years there were other incentives that the City provided to spur the development of housing affordable to lower-income households. From 1988 to 2011, the City offered four Construction Tax Exemptions and Fee Deferrals for housing developed for lower-income households. From 1988 to 2010 the City also exempted low- and very-low income units from the payment of Parkland Dedication fees. This exemption was amended in 2010 to require that affordable units pay the fee at a 50% discount. Additionally, in the past the City has provided planning benefits to affordable housing—this has included expedited processing of development applications and the Two-Acre Rule, which allowed the development of affordable housing on remnant parcels regardless of zoning. Both of these planning benefits are no longer available.

Inclusionary Housing

Other tools that were available to local governments to meet housing needs have also been impacted. San Jose has administered an inclusionary policy in redevelopment project areas in accordance with State law requirements. In January of 2010, the City Council adopted an ordinance that expanded the inclusionary requirements throughout the City.

Implementation of this City-wide inclusionary ordinance and the redevelopment inclusionary policy has been impacted by a 2009 California Court of Appeals ruling – Palmer/Sixth Street Properties L.P. v. City of Los Angeles (Palmer) – which held that the Costa-Hawkins Rental Housing Act pre-empted Los Angeles' inclusionary ordinance. Although this decision did not apply to Northern California, the City Council/Redevelopment Agency Board took action to temporarily suspend the inclusionary requirements for new rental housing development pending any action to overturn the ruling.

Additionally, in 2010, the California Building Industry Association (CBIA), with assistance from the BIA Bay Area, filed suit to halt the implementation of the ordinance for for-sale housing, charging that the City did not demonstrate evidence that the construction of new market-rate housing causes a need for affordable housing, and that the need was not quantified. In May, 2012, the Santa Clara County Superior Court ruled in favor of the CBIA. The City has appealed this decision. Inclusionary requirements for for-sale housing in redevelopment project areas are still required. However, as a result of Palmer and the BIA lawsuit, hundreds of units of affordable housing that would have been built in San Jose were instead built as unrestricted market rate units.

Other Funding Tools

Funding for affordable housing has also seen significant reductions. In 2006, California voters approved the $2.85 billion Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). As of June 2012, less than $199 million (approximately seven percent) of the funds remain, with most being directed towards a housing-related parks program for development of new parks (approximately $166 million).[1] Federal funding has also been reduced, with an approximate 40% reduction in HOME Investment Partnership Program funding last year alone and an approximate 45% reduction in CDBG Funds over the last ten years.

While the Governor stated when he signed the dissolution language that he would propose and support new tools for local governments, to date none have been successfully created. (Potential legislation is discussed later in this memorandum.)

Public Purpose of Welfare Exemption

The California Constitution, Article 13, Section 3, authorizes the Legislature to exempt certain properties from the payment of property taxes, including property owned by local government. Adopted by voters as a Constitutional amendment on November 7, 1944 and implemented by Revenue and Taxation Code Section 214, the Welfare Exemption provides tax relief to qualifying uses and properties that serve a public purpose such as hospitals, charities, religious uses, and affordable housing that is targeted to lower-income persons. This long-standing exemption is an important tool used by affordable housing developers, both nonprofit and for-profit.[2] In order to qualify for the exemption, the owner of affordable housing must certify that "the funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units occupied by lower income households."[3] The Welfare Exemption is allowed by the State Constitution. While the Legislature has the power to change the scope of the exemption, case law indicates that if the City sought to compel payment of the exempted taxes based on a local ordinance, it would be preempted.

The purpose of the welfare exemption for affordable housing is to benefit the community by enhancing the regulated long-term affordability of restricted rental apartments. Although jurisdictions forego property taxes by exempting charitable uses, the exemption helps create vital public purpose uses that the market would not otherwise provide on its own. For example, the housing market does not produce a sufficient supply of units that are naturally affordable and of decent quality for lower-income residents in San Jose. Yet, the need exists.

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[1] http://www.bondaccountability.hcd.ca.gov/
[2] Note: for-profit developers of affordable housing work with nonprofit 501(c)(3) entities that serve as managing general partners.
[3] Revenue and Tax Code Section 214, Subdivision (g)(2)(b): http://law.onecle.com/california/taxation/214.html

While affordable housing (and other uses) are eligible for the welfare exemption, other new developments – both commercial and unassisted residential – also benefit from tax breaks. In California, Proposition 13 gives homeowners significant benefits, with those who have lived in their houses the longest paying substantially less than those who are new purchasers. Likewise, commercial property owners, including market-rate rental housing owners, pay less the longer they have owned their properties. Nationally, the single largest federal housing subsidy is the Mortgage Interest Deduction, which benefits moderate and high income households. Less than 30% of all federal housing subsidy is provided to lower income households in the form of tax credits and housing subsidies.[4]

The impact of this exemption to the City's General Fund is relatively small. Based on an actual 75-unit affordable housing project, once completed the project would have owed $987 per unit per year under the one-percent of assessed valuation formula imposed by Proposition 13 if the welfare tax exemption were unavailable. The City's share of that property tax collection is 9% or $89 per unit per year. Another affordable apartment project that recently completed construction of 92 units would owe $1,010 per unit per year if it were to pay property taxes, with the City's share at 9% or $91 per unit per year.

Yet, while there is a cost, affordable housing produces both direct and indirect benefits. The two projects noted above paid the City $999,525 and $690,000 respectively at the time building permits were pulled. Other direct benefits include the jobs created through construction, property management, maintenance, and other related occupations, and the other taxes and fees projects pay in order to complete the development. Indirect benefits include indirect jobs created through secondary industries that support the housing industry, as well new jobs created through the increased demand for services and retail generated by new households and increased spending power. Using a model from the National Association of Home Builders, it is estimated that the 5,200 affordable housing units developed in San Jose since 2005 has generated 6,300 jobs and $290 million in wages and salaries.[5] Finally, because affordable housing provides a steady environment for families who struggle to make ends meet, such housing results in the foregone cost of services such as fewer emergency room visits and need for social services. Without affordable housing, the incidence of overcrowding, especially in unsafe and unsanitary living conditions, and homelessness would rise, putting additionally demands on code enforcement, police and fire, and other City departments.

To replace foregone property taxes as a result of the exemption, some jurisdictions have used or explored the use of "payments in lieu of taxes" (PILOTS). For example, a jurisdiction could enter into an agreement with an affordable housing developer to make a payment to cover a portion of the foregone property taxes (say 25%) and stay exempt for the remaining portion (in this example, 75%). However, the California Board of Equalization (BOE) recently reaffirmed that there is no statutory authority to enter into a PILOT agreement in the case of affordable

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[4] David Rosen, Ph.D., "Silicon Valley Housing Summit 2011: What Now? A Perfect Storm for Affordable Housing in California," May 4, 2011.
[5] National Association of Home Builders, "The Local Impact of Home Building:,"
http://www.nahb.org/generic.aspx?genericContentID=35601

housing. Specifically, the BOE opined that 'payment obligations which prevent the owners of low-income housing from making the certification required by Section 214, Subdivision (g)(2)(B) of the Revenue and Taxation Code jeopardize the welfare exemption for the associated low-income housing property."

Current Housing Landscape

The economy is improving, and nowhere else as fast as it is here in the Silicon Valley. As the economy grows and jobs return, lenders' and builders' confidence increases, resulting in new housing development. This is important, as limited supply impacts the cost of housing. And if supply cannot meet the demand of new workers, then the workers will drive up costs, move to neighboring jurisdictions, or crowd into existing housing.

Since February 2012, developers have pulled building permits for 3,379 new residential units. Of this unit total, twelve percent (12%) are affordable. Most of the new housing is rental housing, and most developers report anticipated rent rates that are significantly higher than the average rent ($2,000 to $3,000 per month).

The financial markets are beginning to shift. For market-rate rental developers funded by Real Estate Investment Trusts or other equity sources, capital for South Bay apartment construction has increased as rents have risen (an increase of approximately 18% in the past two years). Commercial lending for apartment construction is reportedly increasing in availability; however, underwriting standards continue to be somewhat conservative as banks carefully monitor their real estate risk and ensure rapid lease-up. Projects in San José entitled in the past as condominiums are now being pursued, but for rental developments. This demonstrates the continued strength of rental market properties. However, at the same time, as there are thousands of market-rate rental units under construction in San José, market absorption of those units is a significant underwriting concern for lenders and equity investors.

For affordable housing developers, the demand for units is very clear given the large and increasing differences between restricted affordable rents and market rate rents. When new affordable developments announce the availability of units, typically hundreds of people respond; waiting lists for most developments are long and remain closed. The dearth of public subsidy—including Low Income Housing Tax Credits in our County—is always a limiting factor for production.

With regard to ownership construction projects, City staff has received an increased number of inquiries from developers and their consultants about smaller for-sale projects over the past few months. Larger planned developments, such as the one on Communications Hill, are trying to proceed and break ground in the next few months. While the availability of construction financing is starting to improve, loan sizing and other underwriting parameters continue to be on the conservative side and there continues to be some reluctance for lenders to finance construction of condominiums.[6]

Demand for for-sale units is, in part, driving renewed interest in new construction. Inventories are much lower than a year ago, the time they are on the market is shorter, and multiple offers and bidding wars on lower-priced homes have returned for single family detached and attached homes. Demand for homes at the lower end of the market increased substantially over the past couple of years, partly buoyed by historically-low interest rates and by the presence of foreclosed homes in the market. Sales of condominiums – frequently bought by first-time homeowners – are currently in great demand, having increased in price faster than single family detached homes in the past year and staying on the market for a fraction of the time as compared to December 2011.[7] Recent estimates are that one-fifth of home sales in the past year in Santa Clara County were by investors.[8] However, a dramatic trend from the past year is heightened demand in higher-priced homes. Sales for homes in this County priced over $800,000 rose by 38.6% over the same time last year.[9] Given the strong demand for homeownership units in our market, there will likely be an increasing willingness for lenders and investors to finance development of new for-sale homes.

Pipeline Affordable Housing Developments

Currently, the Housing Department has a number of projects in the development pipeline. These developments are listed in Attachment A. In summary:

- 515 Units are Under Construction
- 562 Units are Fully Funded and Preparing to Start Construction
- 1,100 Units in the Pipeline Awaiting Approvals/Full Funding

It is anticipated that the projects awaiting approvals and funding will need $27.6 million in additional City funding to move forward.

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[6] "Bay Area condos' tight supply has buyers scrambling," *San José Mercury News*, February 18, 2013, http://www.mercurynews.com/business/ci_22613042/bay-area-condos-tight-supply-has-buyers-scrambling?source=rss

[7] Ibid.

[8] "Strong demand in January pushes Bay Area home prices up," *San José Mercury News*, February 14, 2013, http://www.mercurynews.com/business/ci_22590186/strong-demand-january-pushes-bay-area-home-sales.

[9] Ibid.

Housing Need

State law requires that every City develop a plan for meeting its regional housing needs. Every seven years, the California Department of Housing and Community Development (HCD) provides a determination of Statewide housing needs based on population projections issued by the State Department of Finance, and assigns those needs to regional councils of governments (COGs) throughout California. For the Bay Area region, its overall housing need is assigned to the Association of Bay Area Governments (ABAG). ABAG then works with the jurisdictions in the nine Bay Area counties to sub-allocate housing needs across income categories to the local level through the Regional Housing Needs Allocation (RHNA) process. Finally, cities plan for these needs in the State-mandated Housing Element, which must be incorporated into each jurisdiction's General Plan.

RHNA includes housing needs for five different income categories. These categories are expressed as a percentage of a county's area median income (AMI) and are adjusted annually by the California Department of Housing & Community Development (HCD). The income ranges also scale up or down based on household size. The table below provides calendar year 2012 income categories for jurisdictions within Santa Clara County to use when planning for their RHNA. For example, a low-income (LI) housing unit means that it is affordable to a one-person household with an annual income between \$36,750 and \$53,000, or to a four-person household with an annual income between \$52,500 and \$75,700. Each of the nine Bay Area counties has its own income table.

Calendar Year 2012 Income Limits for Santa Clara County

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Income Category	Percent of Area Median Income (AMI)	1-Person Household	4-Person Household
Extremely-Low Income	Up to 30% of AMI	≤\$22,050	≤\$31,500
Very-Low Income	30-50% of AMI	\$36,750	\$52,500
Low-Income	50-80% of AMI	\$53,000	\$75,700
Median Income	100%	\$73,500	\$105,000
Moderate-Income	80-120% of AMI	\$88,200	\$126,000
Above-Moderate Income	Above 120% of AMI	> \$88,200	> \$126,000

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

Local Housing Elements must be updated every five to seven years to reflect each RHNA cycle. San Jose's latest Housing Element was approved by the San Jose City Council in June 2009, covering the current RHNA period from January 1, 2007 to June 30, 2014. For this cycle, San Jose is required to plan for the development of 34,721 units, 38% of which are for extremely low, very low, and lower income persons. This percentage increases to 56% when housing needs for moderate-income households are included. While the City has planned for this level of development in its Housing Element, the national recession and the lack of affordable housing subsidies has impacted the City's ability to finance the actual production of units. For the first six calendar years (January 1, 2007 to December 31, 2012) of the current RHNA period, 12,324 total residential units across income categories have been added. This accounts for 35% of the total RHNA goal. Looking at San Jose's progress by subcategories, the City has met 64% of its above-moderate income housing goal but only 13% of its cumulative affordable housing goal.

In early 2011, ABAG initiated the allocation process for the next RHNA cycle from 2014 to 2022. In February of 2012, HCD provided regional numbers to ABAG, which is expected to adopt the final allocations for each jurisdiction in July 2013. Jurisdictions will then be required to plan for this level of development in their updated Housing Elements by December 2014. The current process emphasizes compact, mixed-use commercial and residential development with access to transit, consistent with the goals of SB 375 and AB 32 to reduce greenhouse gas emissions by integrating transportation, housing, and land use planning. Additionally, the Housing Element will be required to include sufficient affordable units to ensure that people can live near where they work, resulting in more livable communities, a higher quality of life, and a vibrant community.

At the November study session, panelists discussed in detail the need for affordable housing for all San Jose residents – from those on the streets or on fixed incomes to those who are employed by our driving industry employers. The City's housing efforts must include strategies that respond to the wide range of needs of our residents and employers. While providing housing opportunities for those with higher incomes will require creativity and targeted effort, meeting the needs of the lowest income residents will require more intervention and funding. San Jose's average rents ($1,825 according to Real Facts[10]) and median home prices ($584,500 according to the Santa Clara Association of Realtors[11]) present challenges for residents and businesses alike.

[10] RealFacts, Data from 4th Quarter 2012
[11] Santa Clara County Association of Realtors, December 2012: http://www.sccaor.com/housing-statistics

Housing Strategies for Different Income Groups

Housing Need	Affordable Rent/Home Prices	Potential Tools	Potential Strategies/Funding Sources	Subsidy Required
Homeless and Fixed Income: $0-$11,000 Annually; up to 15% AMI (Extremely-Low Income)	Rent--$0 to 275/month	• Rent subsidies • Supportive housing • Master Leasing • Shared Housing • Transitional Shelter	• Program Income • HOME Funds • Housing Auth. Vouchers • Housing Impact Fees • Mental Health Svs Act • Other Health Funds • Social Impact Bonds	• 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: $11,000-$36,000 Annually; between 15% and 50% AMI (Extremely to Very-Low Income)	Rent--$275-900/month	• Rent subsidies • ELI housing units • Shared housing • SROs • Secondary Units	• Housing Auth.Vouchers • Housing Impact Fee • State Perm Source • Public benefits zoning • HOME Funds	• Section 8 Voucher • Development Subsidy: $100-$150K per unit
Support Economy: $36,000-$72,000 Annually; between 50% and 120% AMI (Very-Low to Moderate Income)	Rent--$900 to $1800/month Home Price: $300K	• Development subsidies s • Smaller units • Downpayment assistance	• Housing Impact Fee • State Perm Source • Public benefits zoning • Inclusionary Zoning and In Lieu Fees • Development Incentives	• Development Subsidy: $80,000-$100,000 per unit • Second Mortgage Assistance: $50,000 per unit
Driving Economy: $72,000-$115,000 Annually; between 80% and 160% AMI (Moderate to Above-Moderate Income)	Rent--$1,800 to $2,875/month Home Price: $300-$500K	• Affordable by Design • Downpayment assistance	• Inclusionary Zoning and In Lieu Fees • Development Incentives • State Housing Funding, including Perm Source	• $25,000 per unit second mortgage

As the chart illustrates, the subsidy needed to house those who have the most limited resources – the homeless, seniors, veterans – is significant. Many people who fall in this category have physical or mental conditions that limit their ability to work or increase their incomes, and most will need assistance for an extended period of time. Targeting resources to this group will ensure that those most in need are served, but it will result in a smaller number of units built and people served.

Also, while serving those most in need requires resources, there are tools that can be employed to meet the needs of other groups – such as those who work in our driving industries – that do not require subsidy.

The City Council asked the Department to indicate the amount of funding that is necessary to fill the gap created by the reduction in affordable housing funding. This can be looked at in several ways:

1. Simply replacing the lost Low and Moderate Income Housing funds: about $15 million per year (acknowledging that this is point-in-time data).
2. Replacing all federal and State funding lost in recent years: about $23-30 million per year.
3. Looking at both the lost housing funds and the loss in inclusionary units: $23-30 million per year, plus the value of an estimated 500 income-restricted affordable units (approximately $50 million).

Available Housing Funds

The main source of ongoing funding for affordable housing is from income that is generated from the City's housing loan portfolio (program income). The amount of funding generated from this source can vary from year to year. However, the Department can rely on approximately $6.5 million in annual revenue from regular residual receipts payments received from developers and loan payments from homebuyers and homeowners. Additional funding over and above this amount comes when loans are paid off or developers refinance or restructure their development loans.

In order to manage the administration of the Housing Department, its loan portfolio, and new program activity, while ensuring that there is no adverse impact to the General Fund, the annual revenue of $6.5 million is used to pay for staffing, related overhead costs, and rent. Given that tax increment is no longer available to pay for ongoing operations, the Department has reduced its staffing by 25%, with another 13% reduction proposed in FY 2013-14. During this time frame, the Department's administrative funding (including overhead and direct charges from other departments) was reduced by 34%, from over $14.8 million in FY 2009-10 to a planned $9.8 million in FY 2013-14.[12] Note that, while the dissolution legislation allowed for the payment of administrative costs relating to the wind down of the 80% redevelopment program, no funds were authorized for the administration of ongoing 20% Low and Moderate Income Housing obligations. Funds remaining after the costs of administration are available for new projects

In addition to program income, the Department manages a number of federal, State, and local sources. These sources and their uses are shown in the chart below.

[12] This includes funding from all fund sources.

FY 2013-14 Anticipated Funding Sources and Uses

Sources	Anticipated Funding FY 2013-14	Uses
Program Income	$10,500,000	New Project Loans (Acquisition, Rehabilitation, Construction)
Housing Trust Fund (Bond Fees/Miscellaneous)	$1,100,000	Homeless Programming/Emergency Support Destination: Home Case Management Homeless Outreach
Negotiated Developer Payments	$5,000,000	New Project Loans (Acquisition, Rehabilitation, Construction)
Community Development Block Grant	$7,800,000	Public Services (Nonprofit Support/Programs) Housing Rehabilitation and Minor Repairs Targeted Code Enforcement Place Based Neighborhood Activities Job Producing Economic Development Community Infrastructure
HOME Investment Partnership Program	$2,500,000	New Project Loans (Acquisition, Rehabilitation, Construction) Tenant Based Rental Assistance
Emergency Solutions Grant	$800,000	Grants to Homeless Shelter and Service Providers
HOPWA	$900,000	Grants to AIDs/HIV Shelter and Service Providers
CalHOME	$1,000,000	Loans for Housing Rehabilitation and Homeownership Assistance
TOTAL	**$29,600,000**	

Funding for Homeless Prevention

The Council requested information about opportunities to use budgeted funds to address homeless issues. The City now uses many of its funds to respond to homelessness. Housing Trust Funds (bond administration fees and other miscellaneous funds) support Destination:Home, provide homeless outreach and other services, and cover the costs of Department staff working on homelessness, including the Homeless Encampment Manager. Community Development Block Grant (CDBG) funds are being allocated for homeless outreach services. In addition, we are working with the Downtown Streets Team to explore the feasibility of using CDBG funding to help with creek clean ups. Finally, the City has used a portion of its annual HOME funding for Tenant Based Assistance, including the St. James Park pilot program, which seeks to house and provide services to 15 homeless people with addiction issues. Emergency Solutions Grant funding is used solely for homeless response.

The largest source of income – program income – cannot be used for homeless activities, as it is governed by the Community Redevelopment Law (CRL) which prohibits the use of Low and

Moderate Income Housing funds for homelessness, and requires that income targeting using these funds be made consistent with the housing needs assessment created pursuant to Government Code Section 65584. While redevelopment was dissolved by the State, the law behind it still operates. The current statute is clear that any program income must abide by the CRL as written. There is an opportunity that would allow up to $250,000 in program income to be used for rental assistance in a similar fashion to the federal "Homelessness Prevention and Rapid Rehousing" Program. Language that would allow this use is included in a bill authored by Senator DeSaulnier (see the discussion of SB 341 below). Additionally, supportive housing or housing targeted to Extremely Low Income households is an eligible use of program income.

Furthermore, current CRL language requires that income targeting be consistent with the housing needs assessment created pursuant to Government Code Section 65584, which results in using funds for a variety of income groups. The DeSaulnier bill will remove this language, enabling cities to target program income more deeply.

The City's current Income Allocation Policy requires that a minimum of 85% of available housing funds be set aside for lower income households (those earning below 80% of area median income, as adjusted annually by the State Department of Housing and Community Development), with no more than 15% directed to moderate income households (those earning between 81-120% of area median income). Within the 85%, it further targets 30% of available funds to extremely low-income households (those earning 30% of area median income or below), 30% of available funds to very low-income households (those earning between 31-50% of area median income), and 25% of available funds to low-income households (those earning between 51-80% of area median income).

If more funding were targeted to homelessness, the Council may wish to change the Income Allocation Policy to commit a greater percentage of available funding to those earning less than 30% of area median income. These funds could then be targeted to supportive housing projects serving the formerly homeless. Note that this would only be possible if the DeSaulnier bill were to be signed by the Governor.

State Legislative Response

During the last legislative session, several bills were introduced to provide tools for local government to meet economic development and housing needs that were impacted by the loss of redevelopment. Although the Governor had pledged, upon signing the dissolution legislation, that he would propose new tools, he vetoed all bills that would have offered opportunities for local economic development and affordable housing funding and programming with the statement that locals needed to concentrate first on dissolving redevelopment before new tools could be considered. In recent public settings, Governor Brown stated that he expects local government to handle its affordable housing needs.

Several bills that address the need for affordable housing funding and tools have were introduced by the February 22, bill deadline. With a large number of bills to review, we are still determining those that impact San Jose and its affordable housing program. But we can identify several that deserve attention. These include:

1. A Permanent Source for Affordable Housing (SB 391): Senator DeSaulnier has introduced the California Homes and Jobs Act of 2013, a bill sponsored by Housing California and the California Housing Consortium. This bill would impose a fee of $75 on each recorded real estate document (excluding home sales), which is expected to raise between $300 and $500 million annually for State investment in affordable housing production, leveraging an additional $2.78 billion in public and private capital investment. Because this is a fee and not a tax, it can be approved by a vote of the Legislature. Last year's SB 1220, which is identical to this year's bill and was also authored by Senator DeSaulnier, fell two votes short of a 2/3rds majority in the State Senate. It is thought that the bill may have more potential for passage this year. The City took a support position on SB 1220.

   This bill is important to San Jose. In addition to local funding, it is critical that the State has funding available for affordable housing purposes. There is no ongoing revenue source for affordable housing at the State level—California voters approved a series of one-time funding measures for affordable housing over the years, including Proposition 1C in 2006, which made $2 billion available for affordable housing programs. These funds are largely depleted.

2. The Sustainable Communities Investment Authority (SB 1): In December, Senator Steinberg introduced SB 1, which would allow localities to form Sustainable Communities Investment Authorities to collect tax increment funding from cities and counties for certain economic development and housing activities. This bill is identical to SB 1156, a Steinberg bill that was vetoed by the Governor last year. While an interesting concept, this bill is unlikely to offer much in the way of opportunity for San Jose. At most, it would enable the City to commit its portion of tax increment—between 9% and 12%-- to a new redevelopment effort. The bill would allow a Joint Powers Agreement with a county, but the County of Santa Clara has indicated its opposition to any kind of redevelopment structure moving forward.

3. Veterans Housing and Homeless Prevention Act (SB 639): Authored by Assembly Speaker Perez, this bill would repurpose $600 million in General Obligation Bond money already approved by the voters to enable the funds to be used to construct and rehabilitate affordable multifamily housing for veterans, focusing on those who are homeless or at risk for homelessness and in need of services such as mental health counseling, substance abuse treatment, and job training. The funds currently are targeted to homeownership, mobilehomes, and farms through the CalVet Home Loan Program. Because these bonds were approved by the voters, they will need to approve this change; it is anticipated that a measure would be placed on the November 2014 ballot to request approval. Construction funding for multi-family housing for veterans will be of

assistance to the City in housing its veteran population, many of whom currently are homeless.

4. Community Redevelopment Law (CRL) Reform (SB 341): While not new money, as noted above, a bill authored by Senator DeSaulnier would govern the use of program income—money from transferred 20% Fund housing assets—that can be used to finance new housing activity. Among other changes, this bill will allow housing successors to use the program income for the administration of existing loans, and also for two specific affordable housing purposes—for rental and for-sale housing targeted to households making 80% of median income or less, and for homeless prevention and rapid rehousing services (limited to $250,000 annually). Additionally, the bill would enable pooling of limited funds between jurisdictions for regional housing efforts.

5. Infrastructure Finance Districts (IFDs): Last year, several bills were introduced to improve current law that allows for the creation of IFDs. This year, several more were introduced; we are currently reviewing the bills to determine how they would impact the City. One bill, introduced in January by Senator Wolk (SB 33), is similar to last year's SB 214 that was vetoed by Governor Brown. This bill would authorize the creation of IFDs without the need for voter approval. Similar to redevelopment tax increment, an IFD is a tool that captures tax revenue from a defined geographic area to pay for construction and improvements to public property. The IFD can capture property taxes from local governments and special districts, not from schools, but only if the taxing jurisdictions agree to participate. Transit oriented development, including housing, is an eligible use of the IFD funding. Additionally, any district that constructs housing must require that a minimum of 20% of the units are affordable. In San Jose, the IFD is unlikely to be a large revenue generator given the County's lack of interest in this concept. The City could create an IFD, but would only collect the incremental share of property taxes in the amount of the City's share. Also, this would reduce the property taxes going to the City's General Fund for city services.

6. Reduced Voter Thresholds for Local Taxes: Current law requires a 2/3rds vote of the electorate for new taxes. Several Constitutional Amendments have been introduced to lower the voter threshold for local governments. This includes a bill introduced by Senator Corbett (SCA 9), which would lower the voter threshold for cities, counties, and special districts to approve special taxes for community and economic development projects. For the purposes of the bill, community and economic development projects include those that "improve, upgrade, or revitalize areas within the local government's jurisdiction that have become blighted because of deterioration, disuse, or unproductive economic conditions." Affordable housing is generally considered to be a community and economic development project. Additionally, SCA 11 (Hancock) more generally allows local governments to establish new, extend, or increase taxes upon the approval of 55% of the voters voting on a measure.

7. Greenhouse Gas Reduction Fund: Assembly Member Bocanegra has introduced AB 1051, which would appropriate funds from the Greenhouse Gas Reduction Fund (Cap and Trade) to the State Department of Housing and Community Development for the development of housing affordable to lower income households that is close to transit stations. Priority for funding is provided to those projects that achieve additional greenhouse gas emission reductions through onsite renewable energy, energy efficiency, discount transit passes, car sharing, or other energy conservation features.

8. Inclusionary Palmer Fix— AB 1229 (Atkins) would confirm the power of local governments to adopt inclusionary housing ordinances. This bill is identical to AB 184 (Leno), which the City supported during the last legislative session.

The deadline for bill introduction was Friday, February 22nd. Many of these bills have been introduced in spot bill form (ie, without significant detail). As information is available about additional measures that would impact housing and community development programs, funding, and tools, we will bring those bills forward for Council consideration.

While still in concept form, it is anticipated that a bill will be introduced later this session to create a nine-County Bay Area Sustainable Communities Initiative to meet the region's green house gas reduction goals under SB 375 and AB 32, and which would go before the voters in November of 2014. This "Quality of Life" regional measure would enable the placement of a funding measure on the ballot to finance affordable housing, parks, trails, open space, and transportation improvements and upgrades. This measure conceivably could result in significant monies for San Jose as it works to achieve the Urban Village vision included in the GP 2040.

Additionally, the State Department of Finance and the California Air Resources Board are now defining the eligible uses for future Cap and Trade revenues. The Cap and Trade Program has been created to reach the greenhouse gas emission reduction goals of AB 32. Because transportation creates 38% of all emissions, and transportation needs are directly related to where people choose to live and where they can afford to live, affordable housing is an important focus. A coalition of environmental, transportation, and housing groups are working to ensure that a significant percentage of the funds be allocated to clean transportation choices and the construction of affordable homes near transit.

Federal Legislative Response

Unfortunately, at the federal level, there is more opportunity for a reduction in funding than any new source. As mentioned above, we are awaiting action by Congress on sequestration, which would result in an estimated 5% reduction in funding for programs administered by the U.S. Department of Housing and Urban Development (HUD). Of most concern is the potential reduction in funding to the Section 8 Voucher Program, which could result in the displacement of San Jose residents now housed with a rental subsidy. For other entitlement programs administered by the City – such as the CDBG Program, the ESG Program, and the HOPWA

Program – this would result in a decrease of funding available for local nonprofit groups in FY 2013-14 and for the City's infrastructure projects.

Federal tax reform may also result in changes. There is concern that Congress may take action to eliminate or reduce the Low Income Housing Tax Credit (LIHTC) Program. For more than 25 years, the LIHTC has been the primary program for creating housing for lower-income people throughout the nation. While the Federal Housing Administration offers loans for multifamily affordable housing, the presence of subsidy – through equity derived from sale of LIHTCs, or through local and state governments – is what ensures the creation of truly affordable units. In San Jose, LIHTCs have been an incredibly important tool, attracting private equity to finance more than 17,600 affordable apartments since the inception of the Credit in 1987. While the LIHTC is potentially at risk, conversations are happening around a potential new federal rental tax credit. Limited information is currently available about this opportunity, and, were it to pass, it is unlikely to be operative for some time.

Also, there are efforts to create a funding source for the National Housing Trust Fund, with one potential source coming from a change to the Mortgage Interest Deduction (MID). California groups have expressed concerns about the change being floated: limit the MID to mortgages of $500,000 or less, with savings going to fund the Trust Fund. This idea, while interesting, unfairly impacts homeowners and homebuyers in high-cost places like San Jose. San Jose's median housing value of $605,000 is more than three times greater than the national median of $184,000.[13] As of December 2012, the median listing price for a house for sale in San Jose was $584,000, also three times greater than the median national listing price of $180,000.[14] Any changes to MID should reflect regional differences in housing costs.

Potential Local Responses

Cities throughout the State are considering how, or have taken action, to replace the funding lost as a result of the dissolution of redevelopment. One popular idea is known as Boomerang funds—where redevelopment funding that is redistributed to taxing entities flows back to the jurisdiction for affordable housing purposes. This is not an option in San Jose, since our Successor Agency has an insufficiency of funds and no money is expected to flow to taxing jurisdictions for many years.

Cities are also increasingly turning to a toolbox known as Public Benefits Zoning (PBZ) to fund needed community improvements and infrastructure. PBZ is a broad concept that includes a variety of mechanisms, and is based on the rationale that new development brings new demand for additional infrastructure capacity such as schools, parks, streets, and affordable housing. PBZ tools can:

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[13] American Community Survey 2007-2011 5-Year estimate, US Census, http://factfinder2.census.gov/faces/nav/jsf/pages/community_facts.xhtml
[14] San Jose median price from the Santa Clara County Association of Realtors; National median home price from the National Association of Realtors.

- Confer development rights in exchange for public benefits, like density bonuses and rezoning.
- Provide funding to mitigate impacts, like impact fees, which can help pay for infrastructure needs like parks and housing.
- Use development agreements to negotiate a package of public/community benefits in exchange for development rights. San Jose has used this tool over the years, with the most recent example being a development agreement approved by the City Council in December 2012 with the Irvine Companies for the North San Jose Riverview development. As part of a development agreement that enabled the Irvine Companies to reconfigure and redesign a site, agreement was reached that the developer would adhere to a specific development timetable and make a $3,000,000 contribution to the City for a high-rise incentive.
- Employ tools like special assessment districts, community facilities districts, and overlay zoning.

PBZs can be especially important in areas undergoing transformation that require significant infrastructure investments or in communities that may experience increases in property values due to public investments. Development agreements usually provide greater flexibility, while impact fees or assessment districts provide greater development certainty.

One specific strategy that cities in California and in the Bay Area are increasingly exploring is the housing impact fee. A housing impact fee requires that market-rate housing developers pay a fee to offset the demand for affordable housing created as a result of their development. In January, the Mountain View City Council adopted a fee of $10 per habitable square foot of residential space effective February 9, 2013. This fee is expected to generate an estimated $7 million annually for affordable housing. Other cities have previously adopted housing impact fees. These include San Francisco, Menlo Park, San Carlos, Fremont, Walnut Creek, Berkeley, Solano Beach, and San Diego. The type of impact fee varies by jurisdiction. Some localities use a flat fee, while others vary the fee based on unit size or tenure type. Impact fees can be used for rental or for-sale units, although typically ordinances target rental units. Implementing such a fee typically requires a nexus study documenting the impact and the proportionality of the fee, as well as an amendment to the Housing Element and an implementing ordinance.

Other ideas have been considered by the City in the past, but are worth reviewing again. Attachment B provides a brief description about potential funding sources.

Regional Opportunities

The dissolution of redevelopment has provided new opportunities for collaboration as cities decide how to continue providing affordable housing opportunities with the loss of a regular, ongoing source of funding. In Santa Clara County, discussions have begun about possible approaches and options toward a more regional effort. The County of Santa Clara has expressed an interest in exploring options, including a Joint Powers Agreement (JPA) or Joint Exercise of Powers Agreement (JEPA). Conversations are also underway with the Housing Authority of

Santa Clara (HACSC) about increased collaboration. How this may be structured is not yet known. However, three possibilities include:

1. Cooperation Agreement: A regional response could be implemented through a cooperation agreement. Such an agreement could address regional funding applications and distribution and provision of services by either entity. The amount of additional overhead by such an agreement is minimized since cooperation agreements are typically implemented at the staff level, without requiring a separate board or steering committee structure. The form is relatively flexible, and the County has broad authorization under Government Code Section 26227 for health and welfare related agreements of this nature.
2. Joint Exercise of Powers: If a more comprehensive approach is needed, or in the event multiple public agencies are involved and a cooperation agreement is insufficient, a joint exercise of powers agreement under Government Code Section 6500, et seq. enables public entities to exercise their common powers. This authorization is broader than that typically provided in a cooperation agreement, because it can authorize the exercise all of the common powers of the parties, not just the specific powers authorized under the cooperative agreement statutes. Such joint exercise of powers agreements are required to contain several specific provisions, including a description of the purpose of the agreement and the powers to be exercised, provisions to ensure a strict accounting for funds, the name of the public officer who will manage the funds, and the identification of the entity or party that will administer the agreement.
3. Joint Powers Authority: The parties may wish to form a separate legal entity in order to set up a separate administrative structure, to ensure that the member entities are indemnified, and/or to access the bond issuing powers under Government Code Section 6500, et seq. In that event, several requirements in addition to those described above are imposed under Government Code Section 6500, et seq. including filings with the Secretary of State and the State Controller, establishing an audit procedure, and designating a treasurer. Additionally, the new entity must comply with the basic State law requirements for new entities (CEQA Resolutions, Brown Act Resolutions, Meyers Milias Briggs Act compliance, etc.).

Other issues that cross city boundaries, such as air quality, transportation, and emergency response, are coordinated regionally. This is not the case with the delivery of affordable housing in Santa Clara County. Some areas have established a regional response. An example is San Mateo County, which has a JEPA between the cities and the County that is responsible for, among other things, joint fundraising, financing, administering, and monitoring certain workforce and affordable housing program activities.

The upcoming roll out of the federal HEARTH Program (the Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009) provides a key opportunity for collaboration. HEARTH consolidates separate homeless assistance programs that were authorized by the McKinney Vento Act into a single program. As required, a local collaborative entity is established to make funding decisions, and a united funding entity is in charge of overseeing the program. While it is not required that either entity be a government, due to the requirements of the program, it is advisable that the united funding entity be a unit of government. Because the funds will be available County-wide, and not just in San Jose, it makes sense to have a regional body manage the program. Destination:Home is currently leading an effort to determine how the HEARTH Program can be implemented in Santa Clara County. This report is anticipated to be completed in the next 6-10 months.

EVALUATION/FOLLOW UP

Staff will return to the City Council with a Five Year Housing Investment Plan, which will cover the years FY 2013-14 to FY 17-18 in June. This Plan will include direction received by the City Council in response to this report.

PUBLIC OUTREACH

❑ **Criterion 1: Requires Council action on the use of public funds equal to $1 million or greater.** (Required: Website Posting)

❑ **Criterion 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.** (Required: E-mail and Website Posting)

❑ **Criterion 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.** (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

This item does not meet any of these criteria. However, a copy of the City Council memo will be posted to the City's website for the March 12, 2013 meeting.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney.

CEQA

Not a Project, File No. PP10-069 (a), Staff Report.

/s/
LESLYE CORSIGLIA
Director of Housing

For questions please contact Leslye Corsiglia, Director of Housing, at 408-535-3851.

Attachments

Attachment A - Affordable Housing Unit Production

Fully Funded (Construction Not Started)

Development	Developer	Council District	Tenure Type	Population	Aff. Units	City Loan	City Bond Issuance
7th & Taylor (Ajisai)	ROEM	3	Rental	Family	102	$0	$0
Delmas/Jerome/Fuller	Habitat for Humanity	6	For-sale	For-Sale	1	$120,000	$0
Donner Lofts	MidPen Housing	3	Rental	Family	102	$4,900,000	$0
Japantown*	First Community Housing	3	Rental	Seniors	75	$7,100,000	$0
Orvieto B	ROEM	7	Rental	Family	105	$0	$0
San Carlos Seniors	Core/ROEM	6	Rental	Seniors	94	$8,285,072	$0
Third Street Residential Development	Pacific West	3	Rental	Family	36	$0	$7,000,000
				Total	**515**	**$20,405,072**	**$7,000,000**

*City loan amount also includes cost of the City-owned land leased to the project at a nominal rate

Projects Under Construction

Development	Developer	Council District	Tenure Type	Population	Aff. Units	City Loan	City Bond Issuance
1st & Rosemary Family Apartments*	ROEM	3	Rental	Family	182	$6,300,000	$0
1st & Rosemary Seniors Apartments	ROEM	3	Rental	Seniors	105	$3,700,000	$0
Ford & Monterey Special Needs (Phase 1)**	Eden Housing	2	Rental	Special Needs	19	$5,515,000	$0
Ford & Monterey Family (Phase 2)**	Eden Housing	2	Rental	Family	74	$7,625,093	$0
La Moraga Apartments	St. Anton Partners	2	Rental	Family	90	$0	$52,440,000
McCreery Courtyards (Mayfair Apartments)	Pacific West/USA Properties	5	Rental	Family	92	$7,676,000	$22,000,000
				Totals	**562**	**$30,816,093**	**$74,440,000**

*City loan for 1st & Rosemary Family has been fully repaid

**City loan amount also includes cost of the City-owned land leased to the project at a nominal rate

Pipeline

Development	Developer	Council District	Tenure Type	Population	Aff. Units	Amount Invested to Date	Additional City Funding Needed	City Bond Issuance
8th and William St. Condos	JPH Consulting	3	For-sale	Family	6	$0	$0	$0
East William & 22nd	Taylor Morrison	3	For-sale	Family	13	$0	$0	$0
Fox Markovits	The New Home Company	3	For-sale	Family	48	$0	$0	$0
Hitachi Lot 6	MacFarlane Partners	2	Rental	Family	35	$0	$0	$0
Hitachi Lot 8	Shea Properties	2	Rental	Family	95	$0	$0	$0
Hitachi 10 & 12	Eden Housing/Lennar	2	Rental	Family	191	$0	$0	$40,000,000
I-STAR	KB Homes	2	Rental	Family	144	$0	$0	$0
Leigh Avenue Senior Apartments	First Community Housing	6	Rental	Seniors	64	$0	$5,000,000	$0
North San Pedro	First Community Housing	3	Rental	Family	134	$0	$1,600,000	TBD
Second Street Studios	First Community Housing	3	Rental	Family	133	$0	$6,000,000	$0
Sycamore Terrace	Barry Swenson Builder	10	For-sale	Family	9	$2,371,921	$0	$0
Sunol	Core	6	Rental	Family	116	$0	$5,000,000	$0
The Met (Phase I)	Charities Housing	7	Rental	Family	100	$6,880,000	$10,000,000	0
Westmont Square	Arcadia Homes Inc.	3	For-sale	Family	12		$0	$0
Willow Glen Woods*	City-owned land/TBD	6	Rental	Rental	TBD	$10,140,557	$0	TBD
				Total	**1,100**	**$19,392,478**	**$27,600,000**	**$40,000,000**

*City loan amount also includes cost of the City-owned land leased to the project at a nominal rate

ATTACHMENT B: POTENTIAL REVENUE SOURCES

Revenue Source	Revenue Potential	Nexus?	2/3 Vote?	Adoption Requirements/Feasibility
Housing Impact Fee	Charged on a per unit or per square foot amount for market rate housing. Nexus studies in Bay Area jurisdictions have shown that they could assess a fee of up to $58 a square foot. Example of per square foot assessment revenue potential: 2,000 market rate units x 1,000 sq ft/unit x $20/sq ft = $40 million annually. This would replace the amount of former 20% tax increment that the City once received.	Yes	No	Perform nexus study, identify nexus fee amount. Amend Housing Element, adopt ordinance. Mountain View has recently adopted an impact fee. Sunnyvale, Cupertino and Milpitas are currently considering an impact fee. Berkeley has a fee of $20,000/unit.
Public Benefits Zoning/Value Capture Tools	Varies depending on structure of the program and strength of the market.	Yes	No	Public benefits zoning describes a variety of mechanisms to help funded needed community improvements and infrastructure. It can also refer to tools that seek to "recapture" a portion of the increase in property values created by public action or investment. This may include, but are not limited to, rezonings, density bonuses, financing/assessment districts, concessions received through negotiations of developer agreements. For some types of PBZ activities it may be necessary to analyze whether they can be implemented consistent with State law and whether a nexus study is needed.
Real Property Conveyance Tax	In San Jose, there is an existing Real Property Conveyance Tax, which is imposed for specific purposes. This tax is set at $1.65 per $500 of property value. Generated $25,110,314 in FY 2011-12.. A .35 increase would set the fee at $2 per $500 of property value, raising an additional $5.3 million assuming FY 2011-12 property values.	N/A	Yes	Property conveyance taxes are a common source for Housing Trust Funds throughout the nation. Real estate transaction taxes are opposed by the Realtors and do not poll well with the voters.
Construction Tax	Varies by residential type from $75-$150. Non-residential uses assessed at $0.08 per sq ft of floor area. Generated $272,990 in FY 2011-12	Yes	Yes	The Construction Tax is solely for the purpose of revenue raising. There are also a variety of exemptions currently in the municipal code governing the tax. The amount of revenue received from this tax is relatively small given the effort it would take to obtain voter approval.

Revenue Source	Revenue Potential	Nexus?	2/3 Vote?	Adoption Requirements/Feasibility
Document Recording Fee	In 2008, the Blue Ribbon Commission estimated that, Countywide, a $10 fee/tax per transaction would raise about $4million annually; a $20 fee/tax per transaction would create about $8 million. Note that this is the same fee that is being considered for the State Permanent Source (the California Homes and Jobs Act of 2013).	N/A	Maybe	Document recording fees are a common source for Housing Trust Funds in other parts of the nation. However, in California, State law limits the imposition of a Document Recording Fee. A Document Recording fee is a county fee that is imposed to recover the cost of the recording documents in a county recorders' office. If State legislation was approved, it would be necessary to analyze whether a fee could be approved by a majority vote of the County Board of Supervisors or if it is a tax under Proposition 218, requiring a 2/3rds vote of the public.
Residential Construction Tax	Per unit tax of $99-$180 depending on structure type. Generated $280,130 in FY 2011-12. Should this tax be increased, it is unlikely to result in a significant amount of revenue for affordable housing.	N/A	Yes	The City has an existing residential construction tax that is to be used for specified purposes. The amount of revenue received from this tax is relatively small given the effort it would take to obtain voter approval.
Building & Structure Construction Tax	Currently set at 1 ¾% of 88% of construction valuation. Generated $12,593,157 in FY 2011-12. An increase to 2% would result in an additional $1.8 million annually. As the economy picks up this amount would increase.	N/A	Yes	The San Jose Municipal Code details the eligible uses—improve roadway conditions on major arterials (Fund 429).
Business License Tax	Currently set at $150 per business for up to eight employees, with an additional charge of $18 per employee up to a maximum of $25,000. Generated $11,290,354 in FY 2011-12.	No	Yes	A 2/3 majority would be required if a special tax versus simple majority for a general tax. Recent polling indicates that 63% of likely San Jose voters appear willing to increase the City's business tax with annual adjustments for inflation.
Commercial Linkage Fee	A commercial linkage fee charges a per square foot fee on commercial development. At $1 per square foot, this would raise an estimate $880,000 annually.	Yes	Maybe	Requires a vote of the local legislative body. Other Santa Clara County cities have a commercial linkage fee. Mountain View just increased their linkage fee to $10 a square foot. The City is currently incentivizing the development of new commercial space. The imposition

Revenue Source	Revenue Potential	Nexus?	2/3 Vote?	Adoption Requirements/Feasibility
				of a new fee may serve as a disincentive. Post Proposition 26, a new linkage fee may be considered a tax, requiring 2/3rds voter approval.
Sales Tax	The sales tax was 8.25% in FY 2011-12. In January 2013, this was increased to 8.625%. San Jose receives 1% of the overall tax, which is paid to the General Fund. The remaining portion goes to other government agencies or for specified purposes. Generated $149,357,881 in FY 2011-12.	N/A	Yes	Recent polling indicates that 70% of likely San Jose voters would support a 0.25% general sales tax increase and 57% would support 0.50% increase. If a portion of the increase were to be allocated for affordable housing, this could result in a large amount of funding. The actual amount would vary depending on the sales tax rate, the strength of the economy, and the level of consumer spending. The sales tax is a regressive tax, impacting lower-income residents more than people with means. The City is considering this option to fund other priority programs and activities.
Residential Parcel Tax	San Jose currently has one parcel tax: the library parcel tax. Its purpose is to raise revenue to maintain and enhance library services. San Jose Municipal Code Title 4, Section 4.79.710 provides a schedule of rates. Rates vary by type of use (residential or "professional") and size of the development (number of units for residential and number of acres for professional) Generated $11,366,433 in FY 2011-12.	No	Yes	A residential parcel tax would need to be created as an excise tax rather than a property tax in order to comply with Proposition 13.
General Obligation Bonds	Issue a GO Bond. A GO Bond could raise considerable money. A one-time source of money, they can be used for the acquisition and improvement of real property (capital projects), but not for services or homeless activities. In San Jose, the voters approved several recent GO bond issues, including a $220 million bond for parks in 2000, a $212 million bond for libraries in 2000, and a $159 million bond for neighborhood security in 2004.	N/A	Ye	This has been used successfully as a vehicle to fund affordable housing in other cities, like San Francisco. .