



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Leslye Corsiglia

SUBJECT: HOUSING PLANS

DATE: March 7, 2014

Approved

Date

March 12, 2014

COUNCIL DISTRICT: NA

RECOMMENDATION

It is recommended that the Community and Economic Development Committee accept the staff report on the development of San Jose's 2014-22 Housing Element, the 2015-20 Consolidated Plan, and the Housing Investment Plan, and provide input on potential policies and programs to consider in the plans for meeting San Jose's housing and community development needs.

BACKGROUND

Staff is in the process of preparing updates for three key housing plans for the City: the State-mandated 2014-22 Housing Element, the federal 2015-20 Consolidated Plan, and the City's locally-determined 2015-20 Housing Investment Plan. San Jose has successfully developed, implemented, and maintained each of these plans in their respective previous planning cycles in compliance with State and federal requirements and local policy priorities. In the past, the plans moved on different planning cycles and time frames. However, the current update cycle for the plans will be on similar timeframes, providing the opportunity for the City to synchronize the policies, funding, goals, strategies, actions, and measures of success for a comprehensive and integrated approach for San Jose's housing and community development efforts.

Below is a summary of the three plans:

- **2014-22 Housing Element:** The Housing Element is a State-mandated housing plan that requires each jurisdiction in California to plan for its fair share housing needs, and is one of seven components – or “elements” – required in local general plans. A jurisdiction's fair share housing need is determined through a three-step process: 1) the California Department of Finance and the Department of Housing & Community Development project population growth and housing needs over a period of time; 2) Statewide housing needs are allocated to regional Councils of Governments (COGs) throughout California; and 3) COGs work with the cities and counties within their purview to allocate the regional need to the local level in what is known as the Regional Housing Need Allocation (RHNA). The Association of Bay Area Governments is the COG for the Bay Area, which comprises nine counties and 101 cities, including San Jose.

The assigned housing needs include the following income categories: Extremely Low-Income (ELI), Very Low-Income (VLI), Low-Income (LI), Moderate-Income (MOD), and Above Moderate-Income (A-MOD). Table 1 below includes information on the income categories, associated incomes, and maximum housing costs. For the 2014-22 RHNA cycle, San Jose has an allocation of 35,080 housing units, of which 60% are affordable (20,850 homes composed of the ELI, VLI, LI, and MOD categories) and 40% are market-rate (14,231 homes composed of the A-MOD category).

Table 1. Regional Housing Needs Income Categories

Income Category	% Area Median Income (AMI)	1-Person Household		4-Person Household	
		Max Annual Income	Max Mo. Housing Cost	Max Annual Income	Max Mo. Housing Cost
ELI	≤30% AMI	\$22,300	\$558	\$31,850	\$796
VLI	< 30% to ≤ 50% AMI	\$37,150	\$929	\$53,050	\$1,326
LI	< 50% to ≤ 80% AMI	\$59,400	\$1,485	\$84,900	\$2,123
Median	100%	\$73,850	\$1,846	\$105,500	\$2,638
MOD	< 80% to ≤ 120% AMI	\$88,600	\$2,215	\$126,600	\$3,165
A-MOD	≤120% AMI	\$88,600<	\$2,215<	\$126,600<	\$3,165<

State Housing Element law requires jurisdictions to update their Housing Element every five to seven years. The law requires localities to: plan for sufficient land capacity within their general plans to accommodate their RHNA at appropriate densities; analyze the jurisdiction's socioeconomic conditions; assess both governmental and non-governmental constraints to housing; quantify local housing needs and objectives; and develop a workplan to mitigate housing constraints and to facilitate housing development across income categories. Housing Element law requires that cities plan to meet their fair share housing needs, but does not require that cities actually build the physical units. Failure to comply with Housing Element law and to produce a State-certified Housing Element disqualifies jurisdictions for housing and infrastructure funding, subjects the jurisdiction to lawsuits, and may have their land use authority halted.

For the Bay Area, the 2014-22 Housing Element cycle is also an implementation tool to help meet State objectives for greenhouse gas reduction and sustainable land use planning pursuant to the Global Warming Solutions Act of 2006 (AB 32) and the Sustainable Communities and Climate Protection Act (SB 375), as well as to meet regional housing, equity, and economic development goals through the collaborative One Bay Area planning process.

- 2015-20 Consolidated Plan/Affirmatively Furthering Fair Housing:** The federal Department of Housing and Urban Development requires jurisdictions that receive federal housing and community development funding to develop a Five-Year Consolidated Plan and corresponding annual action plans that identify needs, goals, actions, and funding strategies. The report is called the Consolidated Plan because it includes a comprehensive strategy for multiple federal funding sources, including the Community Development Block Grant (CDBG), HOME Investment Partnership (HOME),

Emergency Solutions Grant (ESG), and Housing Opportunities for Persons with Aids (HOPWA). While CDBG is a more flexible funding source that allows for investments in a variety of activities such as economic development and public service, other programs such as ESG and HOPWA are more targeted to specific activities.

A key component of the Consolidated Plan is the inclusion of strategies to Affirmatively Further Fair Housing (AFFH) to meet federal fair housing and civil rights laws. The current mechanism to address AFFH requirements is through the Analysis of Impediments to Fair Housing (AI), which identifies barriers preventing individuals, households, and families from accessing housing opportunities and a strategy to mitigate or eliminate those barriers. In the past, this has primarily included issues related to discrimination against protected classes and landlord-tenant issues. HUD is currently in the process of updating its AFFH requirements to include assessment of fair housing issues related to land use planning, equitable development, and gaps in existing infrastructure and systems. Staff is proactively planning for strategies to meet the new fair housing requirements once adopted.

- **2015-20 Housing Investment Plan:** San Jose's Housing Investment Plan (HIP) is a locally-determined plan that aligns local, regional, State, and federal funding sources towards achieving the City's housing and community development goals. While the Housing Element focuses on the regional housing needs allocation and the Consolidated Plan addresses investments for meeting local housing needs that align with federal priorities, the HIP is an investment plan, which comprehensively aligns strategies and all funding sources to meet the full range of housing and community development priorities. Some of the HIP policies and priorities may overlap with those found in the State and federal plans; others may be unique to San Jose and are locally-determined. Additionally, the alignment of the HIP with the other two plans allows for greater report streamlining.

ANALYSIS

Decreased Housing Resources, Increased Need for Affordable Homes

In the last several years, the ability for jurisdictions in California to meet their housing and community development needs has been severely diminished, given the demise of redevelopment agencies, the legal challenges to inclusionary housing, the depletion of State funding sources, and the significant decline in federal dollars. San Jose is no exception: since the beginning of the current 2007-14 Housing Element cycle, the City issued building permits for 13,073 market-rate units (85% of the City's 15,450 market-rate allocation). Only 2,956 permits for affordable homes (15% of the City's 19,271 affordable housing allocation) have been issued during the same time.

Yet, although nearly all of the traditional tools have either been eliminated or marginalized, the need for a range of housing opportunities has never been greater. Several recent articles have

documented the significant increases in housing costs since the housing downturn between 2008 and 2011. In San Jose, owner-occupied homes have recovered most of their losses since the downturn and values are approaching pre-recession highs.¹ On the other hand, rental units are at all-time highs, with one-bedroom apartments averaging \$1,800 and two-bedroom apartments averaging \$2,200 Citywide.² While these costs are high, they understate the cost of new rental homes on the market. For example, new apartment homes in North San Jose currently offer one-bedroom units starting at \$2,100+ and two-bedroom units at \$2,600+.

Finally, the data show a divergent workforce in Silicon Valley: while approximately one-third of the County's jobs pay between \$86,000 and \$144,000, nearly half of the jobs pay lower-income wages between \$19,000 and \$55,000. Projections indicate that more than half of future job growth will comprise primarily high-skill, high-wage jobs and low-skill, low-wage jobs but few middle-income jobs.³ To the extent that income inequality grows, the need for more affordable homes will also increase.

Key Concepts

Given the current environment and in response to initial public and stakeholder input, the following key concepts have guided the development of the three housing plans in order to create effective, robust strategies to address San Jose's housing needs as well as other goals, including economic, environmental, and equity goals:

- **Systems Approach:** Traditional ways of doing business are no longer effective. Develop and strengthen new partnerships, infrastructure, and systems to create affordable housing. Continue to link housing to interrelated systems such as transportation and public health.
- **New Tools:** Agencies must develop new tools and funding sources to replace those lost. These include but are not limited to financing and planning tools. Explore existing tools not yet used in San Jose as well as innovative financing strategies.
- **Regionalism:** All jurisdictions must contribute to housing production in order to meet their fair share housing needs, especially in jurisdictions whose rate of job growth exceeds the rate of housing growth. A regional approach/mechanism should be explored to address regional housing needs and mismatches in jobs and housing.
- **Placemaking:** The right housing in the right place creates a desirable urban built environment necessary to facilitate placemaking, to support local restaurants and retail, and to drive economic development. Developed at the right densities and urban form with a mixture of land uses, residential development is a net positive fiscal generator.

¹ Data from the Santa Clara County Association of Realtors.

² Data from RealFacts.

³ All wage and employment data from the California Employment Development Department.

- **Market Facilitation:** Develop strategies to facilitate the strong residential market in Urban Villages and other priority development areas in order to support the vision of Envision 2040 and economic development.
- **Equitable Development:** Ensure that development, especially in strong market locations such as in transit-oriented and jobs/amenities-rich communities, provide residential opportunities across income categories. While strong markets indicate economic health, they may also lead to gentrification, displacement of existing residents, and exclusion of lower-income residents unless economic growth is connected with strategies for broad-based prosperity and opportunities.

Plan Development

Below is a summary of the development process for the three housing plans and how the key concepts above have both emerged from and shaped the plans' initial development:

- **2014-22 Housing Element:** PBCE and Housing Department staff have worked together since Fall 2013 to jointly develop the report. A key component of the process has been significant public outreach, including a total of 17 geographically distributed public listening sessions, public meetings, and smaller group stakeholder meetings. Public meetings have included the City's Housing and Community Development Commission (HCDC), Youth Commission, and Senior Citizens Commission, while stakeholder meetings have included the San Jose/Silicon Valley Chamber of Commerce, the County Seniors Agenda, fair housing organizations, the Santa Clara County Association of Realtors, and SPUR. Several key themes emerged from these listening sessions, including: (1) prioritizing housing for those most in need, especially the homeless; (2) preserving the existing affordable housing supply, and mobilehomes in particular; (3) updating the City's secondary units ordinance, (4) developing strategies for housing in Urban Villages; and, (5) the need to develop new partnerships and funding sources. Staff are considering this public input and currently developing the initial draft report, which is anticipated for public release and submission to HCD in April 2014. A final report will be presented to the City Council in August 2014, and the Council-approved Housing Element must be submitted for certification by HCD no later than January 31, 2015.
- **2015-20 Consolidated Plan:** Similar to the 2010-15 Consolidated Plan process, Housing Department staff have been engaged with other local agencies since Winter 2013 to develop the 2015-20 Consolidated Plan process using a regional approach to address federal housing, community development, and fair housing requirements. The process will be facilitated by a consultant to: 1) develop a regional Consolidated Plan document that includes analyses of socioeconomic characteristics, housing needs, and fair housing issues for each participating jurisdiction and for the County as a whole; 2) assess housing market conditions; 3) identify regional and local infrastructure and resource needs and gaps; 4) hold public outreach meetings; 5) prepare a final regional report on findings and recommendations. The request for qualifications (RFQ) will be issued in March 2014 with consultant selection and initiation of work in June 2104, with the Santa Clara

County Office of Affordable Housing managing the RFQ process. The regional report is scheduled to be finalized by December 2014.

This final regional report will serve as a template for participating jurisdictions to use in informing the development of local 2015-20 Consolidated Plans to address needs at the local level, as well as the 2015-16 Annual Action Plan, which is the first-year implementation plan of the next five-year cycle. Additionally, one of the primary goals of the regional plan is to go beyond data analysis and resource-sharing to include identification of possible regional mechanisms and strategies that would require interagency collaboration and implementation. While participating agencies have the flexibility to develop their local Plans after the regional process, staff anticipates that the City will begin development its local Consolidated Plan concurrently with the regional process. In addition to public outreach meetings as part of the regional process, staff anticipates including further outreach opportunities during the development of San Jose's local Plans. Staff anticipates bringing both the Consolidated Plan and the Annual Action Plan for Council consideration in April 2015, with final submittal to HUD by the May 15, 2015 deadline.

- **2015-20 Housing Investment Plan:** Staff began the update of the Housing Investment Plan at the end of 2011 while cities were at the initial stages of understanding – and developing responses to – the impacts of the dissolution of redevelopment agencies. To inform the update, staff, as in previous Plans, convened a task force composed of developers, lenders, and nonprofit organizations to identify needs, priorities, and strategies. Staff also convened focus groups with developers (affordable and market-rate), local agencies, and nonprofit service providers for more in-depth discussion.

As processes for the Housing Element and Consolidated Plan began to take shape, staff recognized the opportunity to align the work of the HIP with the goals, strategies, actions, measures of success, and timeline to be contained in the other two reports. Currently and in the past, the three plans operated on different timelines, which led to related but sometimes distinct sets of goals as well as performance metrics. By aligning all three plans for the upcoming cycle, the plans and associated reporting processes can be streamlined and mutually reinforcing.

In addition to the benefit of streamlining and policy alignment, the HIP provides a plan to allocate the full range of City housing and community development resources in areas that the State and federal plans may not cover. For example, the HIP will have a more comprehensive set of strategies to address homeless issues in San Jose, to advance partnerships and regional housing mechanisms, and to connect housing to other systems such as public health. The HIP provides the flexibility to develop new strategies, partnerships, and funding sources that align with the City's own policy priorities but that may not be as fully covered under State or federal requirements.

EVALUATION AND FOLLOW-UP

The anticipated timelines for the three reports are as follows:

- 2014-22 Housing Element
 - April 2014: Administrative draft available for 90-day public review
 - June 2014: Planning Commission hearing
 - **August 2014: Council consideration of the Housing Element**
 - **January 31, 2015: Deadline to submit to HCD for State-certification**
- 2015-20 Consolidated Plan
 - March – June 2014: RFQ and consultant selection for regional process
 - June - November 2014: Begin regional process and simultaneous development of local needs
 - December 2014: Finalize regional draft Consolidated Plan
 - December 2014 – March 2015: Adapt regional Plan and develop San Jose-specific Consolidated Plan
 - **April 2015: Council consideration of the 2015-20 Consolidated Plan and 2015-16 Annual Action Plan**
 - **May 15, 2015: Deadline to submit both Plans to HUD**
- 2015-20 Housing Investment Plan
 - Present – June 2014: Development of draft Housing Investment Plan
 - **July 2014: 30-day public review**
 - **August 2014: Council consideration of the Housing Investment Plan**

PUBLIC OUTREACH/INTEREST

As discussed above, staff has already conducted public outreach and held stakeholder meetings, and will continue to gather public comment as the three plans are developed. Additionally, there will be public hearings at the City's Housing and Community Development Commission, Planning Commission, and City Council that will provide opportunity for input. Because the intent is to streamline and align the three plans, staff seeks to use input from the various processes to inform each document, rather than duplicating meetings and staff effort.

COORDINATION

This memorandum has been coordinated with the Department of Planning, Building, and Code Enforcement.

/s/
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