FIVE-YEAR HOUSING INVESTMENT PLAN

2007 - 2012
acknowledgements

Community Participants

Shiloh Ballard  Silicon Valley Manufacturing Group
Chris Block  Charities Housing
Bob Brownstein  South Bay Labor Council
Beverly Bryant  Homebuilders Association of Northern California- Southern Division
Christine Carr  Silicon Valley Bank Financial Group
Barry Del Buono  Emergency Housing Consortium
Taylor Dial  Housing Trust Fund of Santa Clara County
Joshua Howard  California Apartment Association- Tri County Division
Jeffrey Loustau  California Housing Consortium
Bonnie Mace  Community Member
Marjorie Matthews  Office of Affordable Housing, Santa Clara County
Ed Moncreif  Neighborhood Housing Services Silicon Valley
Linda Moreno  Housing & Community Development Advisory Commission
David Neale  CORE Development
Jeff Oberdorfer  First Community Housing
Paul Peninger  Non-Profit Housing Association of Northern California
Sandy Perry  Community Homeless Alliance Ministry (CHAM)
Alex Sanchez  County of Santa Clara Housing Authority
Margaret Tamisiea  ADOBE Systems Incorporated
Mark Walker  United Way of Silicon Valley
Phyllis Ward  Affordable Housing Network
Heide Wolf-Reid  Santa Clara County Association of REALTORS
Geti Wong  Ritchie Commercial

City Staff Support

Matt Cano  Parks and Recreation Department
Leslye Krutko  Housing Department
Pete Larko  Redevelopment Agency
Colleen Lopez  Housing Department
Dan Lopez  Consultant
Tom Macrostie  Housing Department
Craig McCafferty  Redevelopment Agency
Melissa Whatley  Housing Department
John Weis  Redevelopment Agency
# Table of Contents

PREFACE ................................................................................................................ 1

PARTNERSHIPS IN HOUSING ............................................................................. 3
  Department of Housing ................................................................. 3
  City Agencies with a Direct Role in Housing ............................. 8
  City Agencies with an Indirect Role in Housing ...................... 12
  Partners External to the City ...................................................... 13

HOUSING MARKET ANALYSIS ...................................................................... 16
  Housing Characteristics in San Jose ........................................... 22
  Poverty .......................................................................................... 27

CITY HOUSING POLICIES .............................................................................. 28
  Guiding Principles ...................................................................... 28
  Measuring Performance ............................................................ 29
  Preserving Units at Risk ............................................................ 33
  Improving Existing Housing ..................................................... 36
  Maximizing Funds ..................................................................... 38
  Serving Those in Need .............................................................. 40
  Additional Proactive Efforts ...................................................... 43

FUNDING SOURCES ..................................................................................... 49
  City Programs ............................................................................ 49
  Other Local Programs .............................................................. 52
  State Programs .......................................................................... 54
  Federal Programs ....................................................................... 59

THE NEXT FIVE YEARS ..................................................................................... 62
  The City’s Financial Resources ................................................. 62
  Outside Investment in Affordable Housing ............................... 63
  Five-Year Funding Projection ................................................... 64
  Five-Year Housing Production Goals ...................................... 66

IMPLEMENTING ACTIONS .............................................................................. 68
  Production Policies ...................................................................... 68
  Serving Those in Need .............................................................. 73
  Proactive Legislative Efforts ...................................................... 76
Preface

The Five-Year Housing Investment Plan (FYHIP) was approved by the City Council on June 17, 2007. Since the FYHIP was approved, the financial and economic climate in the United States has drastically changed. These changes will have lasting and deep impacts to many of the goals stated in this report.

The United States is now in the midst of the greatest economic crisis in decades. The economic downturn also continues to impact the State of California and the City of San José’s housing market. California continues to suffer from a financial crisis that impacts the financial markets, both public and private, that aid in the creation of affordable housing. While the housing market slump is anticipated to turn around in the next several years, more lasting concerns exist about the feasibility of existing public local subsidies to continue finance affordable developments in the long-term. Therefore, it is critical that the State identify a permanent source of secure, ongoing funding that will enable these housing programs to continue once the current funding authorization is fully utilized.

In addition, the financial crisis impacts those San Jose residents facing foreclosure. Over the last two years, the City has seen a rise in notices of default and foreclosures. In recent months, the number of properties in San Jose subject to foreclosure has increased significantly. In 2007, there were 5,838 foreclosure filings in San Jose. During the first quarter of 2009, 4,331 San Jose homes received a new foreclosure filing. As a result, many San Jose residents have lost their homes. Several neighborhoods are now experiencing the devastating effects of the foreclosure crisis including an increase in neighborhood blight. It is expected that, given the nature of subprime lending during the housing boom, foreclosures may continue through 2011. The current economy is only adding to the crisis as unemployment rises and retirement savings decline. The spillover effect will compound the impact of foreclosures in San José by dragging down a previously unaffected group of homeowners. As a result, it is anticipated that there will be a second wave of foreclosures as interest rates reset higher in the next two years. The City is actively working with its nonprofit and for-profit partners to address foreclosures in San José, with the goal of preventing foreclosures and maintaining family and neighborhood stability.
Another concern is the widespread decline in housing values. In San José, the median price for a single-family home fell from $699,000 in December 2007 to $412,250 in March 2009, a 42% decline. During the same time period, the median price for a condominium/townhome dropped from $452,500 to $185,000 a 60% decline. This decline in home values directly impacts homeowners. Homeowners interested in refinancing their existing home loans in order to take advantage of lower interest rates or escape adjustable rate mortgages may not be able to refinance.

While, the City of San José faces many challenges in meeting the increasing demand for affordable housing, it still remains a leader in the development of affordable housing. Through active community engagement, participation in local and statewide initiatives and legislation, and assistance from the federal government, San José will meet these challenges and continue to provide quality affordable housing.
PARTNERSHIPS IN HOUSING

The City of San José partners closely with developers, service providers, advocates, and other public entities to meet the City’s housing challenges. This section describes the coordinated efforts of various internal and external partners of the City of San José.

DEPARTMENT OF housing

The City’s Department of Housing is the primary Department responsible for the administration of the City’s comprehensive affordable housing program. The Department supports a variety of affordable housing activities, including the construction, preservation, and improvement of affordable housing in the community.

Core Services and Programs

The Department’s core services are to:

- Increase the affordable housing supply
- Maintain the existing affordable housing supply
- Provide services to homeless and at-risk populations

To achieve the housing goals and implement the identified core services, the Department administers a number of programs.

Core Service – Increase the Housing Supply

Housing Production

The Housing Department is a public-purpose lender that provides financing for the construction (predevelopment, land acquisition, construction, and permanent financing) of affordable housing. Low-interest loans are provided to
developers as gap financing to build new units and acquire and rehabilitate existing units. The Department also provides predevelopment loans to nonprofit housing developers during the planning stages of affordable housing projects to cover “soft” costs prior to purchase of the property, including architectural work, environmental reviews, and appraisals.

For many years, the priority of the Housing Department in awarding funds was for rental housing for families. More recently, an emphasis on Single-Room Occupancy (SRO) units and other special needs units to house the homeless has emerged. Demand for affordable senior rental housing continues through the Department is limited in the amount of funds it can utilize. Occasionally, the Department has funds available for new developments of for-sale, mixed-income projects, primarily in form of forward commitments of second mortgages once the development is completed.

**Homebuyer Assistance**

The City has a number of homebuyer assistance programs to help potential homeowners bridge the financial gap to homeownership. These include:

- Programs that the City administers directly, including its Teacher Homebuyer and First Time Homebuyer Programs, and second mortgages to specific projects as forward commitments.
  - **Building Equity and Growth in Neighborhoods (BEGIN)** – A State of California program that provides deferred repayment loan of $30,000 for down payment (3% simple interest rate).
  - **Teacher Homebuyer Program (THP)** - Provides deferred repayment loan of up to $65,000 ($40,000 for those earning 90-120% Area Median Income) 0% interest, shared-appreciation loan for full-time teachers at K-12 public schools located in San Jose.
  - **San Jose State University Faculty Homebuyer Program (FHP)** - Provides deferred repayment loan of up to $60,000 (0% interest, shared-appreciation loan) for all full-time employees at SJSU.
- **Downpayment Assistance for Participating New Developments** - Deferred repayment loans to homebuyers (0% interest, shared appreciation loan).

- The Department administers the for-sale inclusionary housing program. Under the City’s inclusionary housing policy, developers are required to set aside a percentage of units as affordable. In order to provide homes at an affordable price the developer provides a second mortgage, which is secured by the City, to the homebuyer. When the home is sold or transferred, the proceeds of the loan are re-captured by the Department and are used to assist new homebuyer.

**Core Service – Maintain the Existing Affordable Housing Supply**

**Rehabilitation and Preservation**

The Housing Department offers a variety of rehabilitation and preservation programs, including acquisition/rehabilitation financing for large projects, and rehabilitation loans and grants primarily for owner-occupied properties, including mobilehomes. The loan and grant programs are designed to assist lower-income homeowners to repair and improve affordable housing. A wide variety of loan and grant packages are available, from $5,000 exterior paint grants to loans of up to $100,000 for substantial rehabilitation of single-family homes. Grants are available for mobilehome owners up to $12,000.

In June of 1998, the City Council established a policy to preserve as many at-risk units possible and adopted a series of actions to address the issue of owners with expiring project-based Section 8 contracts wishing to opt out of the program, as well as owners with federally insured mortgages that wish to prepay. In some cases, the federal government renews projects on a year-by-year basis. However, other projects require additional assistance to maintain them as affordable properties, either through purchase by a nonprofit or through provision of other subsidies.

The acquisition and rehabilitation of existing apartment buildings, together with imposing long-term affordability restrictions on those projects, remains a key component of the City’s affordable housing program. The per-unit cost of acquisition and rehabilitation projects is
often a less expensive, more efficient method of affordable housing production than is new construction. The City has made acquisition/rehabilitation a priority and anticipates substantially increasing the production of newly-restricted units over the next five years.

**Rental Rights and Referrals Program**

The Rental Dispute Program oversees two ordinances; the Rental Dispute and Mediation Ordinance for apartment units constructed prior to 1979, and the Mobile Home Rent Mediation Ordinance. The overall goal of the Program is to stabilize rent increases for apartments and mobilehomes within San José. Rent stabilization enables San José residents to maintain the affordability of their rental housing units.

**Loan Management**

The Department maintains the management functions of its loan portfolio. These involve the coordination and ongoing monitoring of City-financed and City-sponsored housing to ensure that the requirements of the City’s loan and grant terms are met. The Department occasionally renegotiates loan terms for projects unable to make scheduled payments so as to enhance projects’ financial viability. In addition, the Department manages the loans on affordable units assisted by the Redevelopment Agency.

**Core Service – Provide Services to Homeless and At-Risk Populations**

**Homeless Services**

The problems facing homeless people are complex, requiring a coordinated and regional response. In the urban areas of Santa Clara County, the City of San José works in close partnership with the County of Santa Clara to help local jurisdictions take a coordinated approach to ending homelessness in ten years.

The focus of the Homeless Services Division is: to coordinate the housing and homeless assistance efforts of the City with other agencies and governmental entities serving families and individuals who are homeless or at risk of homelessness; to provide direct services to homeless and at-risk individual and families; to ensure sufficient funding for homeless needs; to administer grant funds; to monitor nonprofit agencies receiving funds from the City and U.S. Department of Housing and Urban Development; to examine emerging homeless trends and to implement services to respond to those trends; and to coordinate homeless issues on a regional, State, and national level. Additionally, the Homeless Division administers several grants including:
The Housing Trust Fund (local fund) - The purpose of the Housing Trust Fund (HTF) is to ensure ongoing funding for affordable housing programs. The HTF provides a source of funds for agencies to provide short-term emergency services and assistance to homeless persons and those at-risk of becoming homeless. Funds are awarded on an ongoing basis based on program applicability and funding availability.

Housing Opportunities for Persons With AIDS (HOPWA) (federal entitlement fund) – The City administers both Santa Clara and San Benito Counties’ grant programs. The HOPWA programs provide tenant-based rental subsidies, supportive services, and housing placement assistance to foster independence for people living with HIV/AIDS. Additionally, the Counties’ programs provide affordable housing opportunities to very-low and low-income residents who are disabled with HIV/AIDS, and supportive services such as food vouchers and utility assistance.

HOPWA Special Project of National Significance (HOPWA SPNS or SHAPSS) (federal competitive grant) - The City continues to administer the Shared Housing Assistance Placement and Support Services Program (SHAPSS) in partnership with the Health Trust. This three-year (FY 2007-2010) program will provide affordable housing opportunities and supportive services to very low- and low-income Santa Clara County residents disabled by HIV/AIDS.

Emergency Shelter Grant (ESG) (federal entitlement grant) - The overall goal of the ESG Program is to provide financial assistance to agencies providing services to the homeless or those at risk of becoming homeless. ESG funds are distributed to pay for emergency shelter operations, essential services, and homeless prevention. The City’s other ESG funding priorities for FY 2009-2010 are: (1) Homeless Prevention; (2) Essential Services; and (3) Operating costs.

Additional Department Services

Community Development Block Grant

The Housing Department administers the federal Community Development Block Grant (CDBG) funds, which support a variety of housing programs such as the Housing Rehabilitation Program, and funding for homeless services providers and fair housing services providers. The Community Development Block Grant (CDBG) Program provides nonprofit agencies and organizations with resources to implement services that benefit low-income persons and households, resolve slum and blight concerns, or address community development needs. The Housing Department applies for
federal funding through the Consolidated Plan process and reports the results in the Consolidated Annual Performance Report on a yearly basis.

**Housing Planning, Policy and Program Development**

In addition to administering housing programs and providing funding for affordable housing development, the Department is involved in planning efforts to develop policies and programs to address the housing needs in San José. Such efforts include legislative advocacy at the State and federal levels, dissemination of public information, preparation of State and federally mandated plans such as the Housing Element of the General Plan and the Consolidated Plan, and research, analysis, and staff support to various City standing committees on housing-related policy issues (such as allowing secondary units on single-family properties and whether inclusionary housing requirements should be implemented on a City-wide basis).

**Strategic Support**

Strategic support oversees services provided within City departments that support and guide the provision of the departments’ core services. Strategic support within the Housing Department includes: Public Education, Financial Management, Computer Services, Clerical Support, Employee Services, Facility Management, Vehicle Maintenance, Audit Supervision, and Materials Management.

**CITY AGENCIES WITH A DIRECT ROLE IN housing**

As part of the City’s efforts to develop affordable housing, the Department of Housing relies on the staff resources from a variety of other City departments.
City Attorney’s Office

The City Attorney’s Office plays a key role in providing support to the Housing Department in many ways. Attorneys provide real estate transaction support for individual development projects; they review procedural changes for the Department’s programs; they provide guidance on federal fund administration; they support City Commissions staffed by the Department; and they support the Departments’ administration of public records requests and requests for proposals. There are attorneys and paralegal staff assigned to the Department of Housing to fulfill these tasks. The partnership between the Housing Department and the City Attorney’s Office is critical to the successful implementation of the City’s goal of providing affordable housing.

Community and Economic Development City Service Area Team

The Community and Economic Development City Service Area Team (CED CSA) meets weekly to discuss housing and economic development issues to ensure efforts to address the concerns are coordinated. The CED CSA is made up of a number of departments, including the following:

- Housing
- Redevelopment Agency
- Office of Economic Development
- Planning, Building & Code Enforcement
- Transportation
- Public Works
- Budget Office
- Fire

The group produces a 5-year Business Plan and a 1-year Investment Strategy on an annual basis as part of the City budget process. These plans guide the City's efforts and investments in economic and neighborhood developments throughout San José.

Office of Economic Development

The Office of Economic Development has the mission of expanding employment opportunities in the City, working to create a vibrant local economy and strong City tax base, and responding readily to regional economic shifts and trends.
Economic development and housing are closely connected. A healthy local and regional economy must be sustained by adequate housing for its workforce.

The Office of Economic Development operates the Silicon Valley Work2Future Program. The Work2Future Program functions as the local administrative arm of the Workforce Investment Act of 1998 (WIA). The Homeless Services Division works closely with this program to meet the employment training needs of homeless individuals.

**Finance Department**

The Finance Department works in conjunction with the Housing Department to increase the supply of affordable housing within the City by managing and coordinating the issuance and management of debt needed to finance affordable housing projects. These activities include long and short-term borrowing, debt refunding, debt capacity management, and credit quality oversight. In the regard, the issuance of Tax Allocation Bonds (TABS) is critical to the Department’s ability to finance rental housing developments, providing cash for short-term production needs by pledging future tax increment revenues as repayment. Additionally, the Finance Department provides Treasury functions such as check preparation, wire transfers, and bond debt service payment coordination.

**Strong Neighborhood Initiative**

The Strong Neighborhoods Initiative (SNI) represents the commitment made by the Mayor and the City Council to unite with communities in order to strengthen neighborhoods. The SNI is a partnership of the City, Redevelopment Agency, and the community to build clean, safe, and attractive neighborhoods. The SNI strives to:
- Improve neighborhood conditions
- Enhance community safety
- Expand community services
- Strengthen neighborhood associations

In addition to targeting the Strong Neighborhoods for rehabilitation of owner-occupied homes, the Department administers Project Alliance in those Strong Neighborhoods in which blighted multi-family properties have been identified as a “top ten” concern in the Neighborhood Improvement Plan developed by residents and property owners. Funded by the Redevelopment Agency, Project Alliance provides demonstration grants to targeted properties to fund a variety of exterior improvements – painting, landscaping, vehicular parking – that show other property owners how to eliminate blighting conditions.

**Planning, Building, and Code Enforcement**

The Planning, Building, and Code Enforcement Department (PBCE) and the Housing Department collaborate on the development of plans and reports that guide and monitor the City’s overall affordable housing strategy. As a lead agency responsible for the development of the City’s General Plan, including the Housing Element, Planning staff recently updated the Housing Element for the 2007-2014 period. The Housing Department, together with Planning and the Redevelopment Agency, is charged with implementing the programs and policies contained in the Housing Element. PBCE also develops Specific Plans for targeted areas of the City and undertakes a variety of studies to help guide future development. An example of this is the Housing Opportunity Study, which seeks to identify specific vacant or underutilized parcels, particularly near the General Plan Transit-Oriented Development Corridors.

PBCE oversees the development review process, which includes discretionary land use entitlements as well as Building Permits. The overall process ensures that affordable housing meets the same high standards for design, parking, on-site/off-site improvements and environmental mitigation as market-rate developments. Other departments whose inputs and requirements are critical to the Development Review Process include Public Works, Transportation and Fire.
Finally, in addition to its planning activities, PBCE is responsible for building permitting and inspection, as well as Code Enforcement to ensure that San José’s housing, industrial facilities, and commercial buildings are safe. Planning staff, in collaboration with the Housing Department is currently in the process of updating the Housing Element.

Redevelopment Agency

The San José Redevelopment Agency is a key player in the delivery of affordable housing. The Agency is dedicated to improving the quality of life in San José through a comprehensive and balanced redevelopment program. The Agency continues to revitalize and enliven San José’s downtown, strong neighborhoods, and industrial areas.

The Housing Department works closely with the Agency in expanding affordable housing opportunities to fulfill the Agency’s inclusionary and replacement housing requirements.

The Agency also is an important revenue-generating agency for housing. Redevelopment housing set-aside funds generated by the Agency (described later) are the primary funding source for the New Construction, Housing Rehabilitation, and First-Time Homebuyer Programs administered by the Housing Department. The Agency is a key player in the periodic issuance of Tax Allocation Bonds (TABS) which provides the Department the ability to finance rental housing developments, providing cash for short-term production needs by pledging future tax increment revenues as repayment.

CITY AGENCIES WITH AN INDIRECT ROLE IN housing

Environmental Services Department – Environmental Services (ESD) administers the City’s Green Building initiatives. In general, the City’s objective is to achieve, at a minimum, LEED Silver Certification for new municipal buildings exceeding 10,000 square feet. Since the LEED rating system is not directly applicable to multifamily apartment construction, ESD is working with the Housing Department to implement the Build-It-Green rating system for affordable housing development financed by the City.
Police Department – The Housing Department’s Homeless Services staff works closely with the Police Department on homeless issues. Together, the Housing and Police Departments work to direct homeless persons to appropriate shelters and facilities, and to provide needed services.

Office of Cultural Affairs – The Office of Cultural Affairs (OCA) manages the San José Public Art Program. The Housing Department and OCA are working to establish an ongoing, collaborative relationship to incorporate public art in affordable housing developments. The Office of Cultural Affairs manages the San José Public Art Program. The Public Art Program has more than forty public art projects currently underway emphasizing neighborhood enhancement. The Housing Department and Office of Cultural Affairs are working to establish an ongoing, collaborative planning relationship to insure that the Public Art Program is incorporated into new and existing affordable residential projects throughout the City.

Office of Emergency Services – The Office of Emergency Services (OES) provides services to the City organization and to the community to prepare an effective response to natural, technological, and human caused disasters. In the event of a disaster, the Housing Department partners with OES to staff the Emergency Operation Center to ensure that all citizens affected by the disaster are adequately housed. Additionally, OES has partnered with the Housing Department to provide information to rental property owners to ensure their properties are seismically safe.

PARTNERS EXTERNAL TO the city

Coordinating a response to the housing challenge facing the residents of San José and Silicon Valley requires the allied efforts of various entities. The City of San José works closely with a number of outside entities to find affordable housing solutions.

Developers

An affordable housing strategy cannot be successfully implemented without the cooperation of developers, both for-profit and nonprofit. Developers located in the Bay Area are recognized throughout the Country for the high quality developments they build. The City of San José is fortunate to have the opportunity to work with a highly-
skilled development community. The following outlines the different financing strategies used by developers of affordable housing:

- **Market-Rate Developers** – These for-profit developers typically have capital, excellent access to financing in the private market, and substantial experience in packaging mixed-use projects. Some market-rate developers also develop mixed-income housing to comply with the inclusionary housing requirements in redevelopment areas.

- **Affordable Housing Developers** - Developers of affordable housing, who can be either for-profit or nonprofit, also have access to private capital but are also eligible for a wide range of local, State, and federal funding programs. Through direct financial subsidies, support in grant applications, and assistance through the planning and development permit processes, the Housing Department works closely with the developers to package the best affordable housing developments to address the specific needs of the City.

**Housing Authority of Santa Clara County**

The City of San José has a contractual agreement with the Housing Authority of the County of Santa Clara (HACSC) to administer the City’s Section 8 Rental Assistance and Public Housing Programs. HACSC provides federally subsidized rental assistance in the form of vouchers to almost 12,000 very low-income households in San José as a result of this agreement. In addition, HACSC has developed more than 1,300 units of affordable housing since 1995. In 2007, the City reached an agreement with the Housing Authority to set aside 100 vouchers for chronically homeless individuals. The following are additional creative programs administered by HACSC:

- **Family Self-Sufficiency** – The Family Self-Sufficiency program allows participating families to enter into a contract identifying the responsibilities of the family, including the conditions or causes of termination from the program. This five-year program mandates that families must be off all governmental assistance at the end of the fifth year anniversary. This program allows for escrow accounts to be established in the name of the family. At the end of the five-year period, the family may choose to take the money that is in escrow and spend it on education, housing or transportation.
Shelter Plus Care Program - The Shelter Plus Care Program provides rental assistance and supportive services to individuals who are chronically homeless and have long-term disabilities resulting from serious mental illness, alcohol and drug abuse, or an HIV positive medical condition. The supportive services include counseling, job training, childcare and transportation.

Destination: Home

In 2007, in order to bring the issues of homelessness and the goal of ending chronic homelessness to the forefront of policymakers, funders, and the community at large, the City, in coordination with the County spearheaded a Blue Ribbon Commission (BRC) on Homelessness and Affordable Housing. The BRC, co-chaired by San Jose Mayor Chuck Reed and Santa Clara County Supervisor Don Gage and comprised of representatives of local nonprofits, businesses, and government agencies, was charged with getting the political will, resources, and community backing to make ending chronic homelessness a reality. In early 2008, the recommendations of the Blue Ribbon Commission were initiated; these combined efforts are now known as "Destination: Home." Destination: Home brings together government and private sector partners to end homelessness and address the affordable housing crisis in our community. It does not intend to duplicate the existing social service delivery system, but instead is attempting to create a best practice model that will provide operational efficiencies that allow for more effective service delivery and foster the reduction and eventually elimination of homelessness.

Neighborhood Housing Services Silicon Valley

The Neighborhood Housing Services Silicon Valley (NHSSV) formed in 1995 with support from the City. The organization operates under the auspices of the congressionally established NeighborWorks America (NOWA) (formerly Neighborhood Reinvestment Corporation). NHSSV receives training, technical assistance, and funding from NOWA, and participates in a national network of over 200 community-based organizations dedicated to neighborhood revitalization. NHSSV’s primary mission is homeownership for low- and moderate-income families in San José and the broader metropolitan area. The organization uses the “full-cycle lending” model, under which prospective homebuyers are made ready for a purchase through savings and credit repair programs, are connected with mortgage financing that they can afford, and are connected with follow-up services to ensure that they stay in their homes. NHSSV also administers the Home Venture Fund, which provides downpayment assistance ($20,000 to $80,000) for low- and moderate income households, interest and payments deferred for five years.
HOUSING MARKET ANALYSIS

Affordable Housing in San José

Affordable housing is important to ensure a high quality of life for residents, including young families with children, seniors, and those with special needs. Lack of affordable housing in a region encourages longer commutes, which diminishes productivity, curtails family time, and increases traffic congestion. It may also restrict the ability of crucial service providers – such as teachers, registered nurses, and police officers – from living in the communities in which they work. It is no wonder that Silicon Valley employers have identified the need for affordable housing as their primary concern.

According to the annual CEO Business Climate Survey conducted by the Silicon Valley Leadership Group (SVLG), almost nine out of every ten employers believe housing costs stand well above all other challenges to Silicon Valley companies. Nearly all respondents (97 percent) cited housing costs as the most significant challenge facing working families. Having an adequate supply of quality affordable housing helps keep the cost of living and doing business reasonable, thus protecting the competitive edge of a region.

San José is a national leader in delivering creative affordable housing solutions that benefit residents of all income levels. The City’s affordable housing programs, administered by the Housing Department, provide lower income residents with safe, affordable housing. San José policies emphasize attractive architecture, green building designs, transit-oriented development, and the dispersion of affordable housing throughout the City.

---

While the City is proactive in working to meet the affordable housing needs of its residents, the demand and resources have historically been out of balance due to the extreme cost of living in the Bay Area. The Association of Bay Area Governments (ABAG) projects San José’s total housing need for the 2007-2014 planning cycle to be 34,717 housing units, with 19,268 units for moderate- and lower-income households (56 percent of the total housing need). Of these 19,268 units, 3,875 units are for extremely low-income households (ELI); 3,875 for very low-income (VLI); 5,321 for low-income (LI); and 6,197 for moderate-income (MOD). The remaining 15,449 are for above moderate-income households (Above MOD). The total housing need for the current RHNA period is a 33 percent increase from the 26,114 housing unit allocation from the previous planning period.

Another study by the Bay Area Local Initiative Support Corporation (LISC) and the Institute for Metropolitan Studies at San José State University in 2006 entitled *Housing Silicon Valley: A 20-Year Plan to End the Affordable Housing Crisis*, looked at the need for affordable housing in San José and the Silicon Valley over a 20-year period. The report estimates that, over the next 20 years, as part of a combination of natural growth, in-migration, and new households, Santa Clara County will need over 90,908 new units. Because the City of San Jose represents nearly 55% of the County’s population, we can anticipate that this need for San Jose is at least 45,000 or 2,250 units per year.

These are significant numbers that must be considered in context with the City’s socio-economic make-up. It is not only important to understand the City’s need for affordable housing, but also the challenges faced by residents, which are unique to this area. The following will examine these characteristics for San Jose.

**Income**

Income is a key determinant of how much a household can afford to spend on housing. As of January 2008, the median income in Santa Clara County is $105,500 for a household of four, which is higher than the State’s median income of $70,712 for the same household size.² ³ The California State Department of Housing and Community Development

---

(HCD) annually adjust the income limits for every county in the United States. These income limits are used in determining program eligibility for a wide range of housing programs available to lower-income households.

### Table A: Santa Clara County’s Income Limits by Household Size (2008)

<table>
<thead>
<tr>
<th>Income Category</th>
<th>% Median Income</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low-Income</td>
<td>0-30%</td>
<td>$22,300</td>
<td>$25,500</td>
<td>$28,650</td>
<td>$31,850</td>
<td>$34,400</td>
</tr>
<tr>
<td>Very Low-Income</td>
<td>31-50%</td>
<td>$37,150</td>
<td>$42,450</td>
<td>$47,750</td>
<td>$53,050</td>
<td>$57,350</td>
</tr>
<tr>
<td>Low-Income</td>
<td>51-80%</td>
<td>$59,400</td>
<td>$67,900</td>
<td>$76,400</td>
<td>$84,900</td>
<td>$91,650</td>
</tr>
<tr>
<td>Moderate Income</td>
<td>81-120%</td>
<td>$88,600</td>
<td>$101,300</td>
<td>$113,950</td>
<td>$126,600</td>
<td>$136,750</td>
</tr>
</tbody>
</table>

Source: California State Department of Housing and Community Development (HCD)

While San Jose experiences a higher median income than other jurisdictions throughout the nation, the costs of housing are also extremely high. For example, the median priced home in San José is currently $699,000 compared with State median of $530,830. This disparity between income and housing price makes San José consistently one of the most expensive places to live in the US and where the production of housing – both market-rate and especially affordable – is most needed.

---

3 City of San Jose Housing Department five-Year Housing Investment Plan
4 San Jose housing value comes from the Santa Clara County Association of Realtors. Statewide housing value comes from the California Association of Realtors as of January 2008.
**Employment**

Due largely to the technology sector’s historical gains and losses, Silicon Valley’s economy has been in flux since 2000. Between 2000 and 2004, Santa Clara County lost 13.44 percent of its jobs. This rapid rise in unemployment reflected the region’s major downsizing in the technology sector, including the closure of entire companies. The following year, Santa Clara County’s unemployment rate surpassed the national average and stayed well above it through 2005. However, by January 2008, the County’s unemployment rate (5.1%) has dipped significantly and is below the State unemployment rate (6.3%).

When considering the number of jobs in the area, in January of 2000, during the height of the technology boom, Santa Clara County had 999,600 employed persons in nonfarm jobs. By January of 2002, the number of employees in the region had decreased to 933,100, followed by another drop to 874,000 employees the following year. The California Employment Development Department estimates that in January 2008, Santa Clara County’s non-farm employees had grown to 903,700, so the Bay Area is seeing a slight upturn in its employment activity, but still significantly lower than eight years ago.

**Homelessness**

Homelessness is a regional concern that crosses jurisdictional boundaries. Consequently, regional solutions and a unified approach are needed. In 2003, the City of San José’s Housing Department adopted a Housing First strategy which was pioneered by Beyond Shelter, a Los Angeles-based organization providing assistance to the homeless. The Housing First approach is for agencies to help homeless families first move

---

into permanent housing and then to provide services to help them regain self-sufficiency. This model is an alternative to traditional models that transition the homeless from shelters, to transitional living, and then to permanent housing.

In 2007, San José completed the point-in-time count of homeless persons. The 2007 San José Homeless Census Survey counted 4,309 homeless people in San Jose and 1,049 in emergency shelters, transitional housing, and domestic violence shelters. This figure does not include individuals who may be homeless, but are currently in rehabilitation centers, jails, or hospitals.

San José’s homeless count translates to approximately 11,264 persons who were homeless some time during 2006. Based on the 2005 population estimates from the US Census Bureau, the annual estimate of homeless population represents 1.2% of San José’s total population. Below are the survey’s key findings:

- Twenty percent (20%) of the homeless reported having children and only four percent (4%) reported living with their children. Sixteen percent (16%) indicated they had children in foster care.
- Two percent (2%) indicated they were living with their spouse and children.
- Adult males comprised the majority (72%) of the homeless population.
- Forty-two percent (42%) had been homeless for less than six months, while twenty-one percent (21%) had been homeless for more than three years.
- Eighty three percent (83%) of the homeless were unemployed, with the three leading causes of unemployment being not having a permanent address (24%), not having a phone (24%), or not having transportation (22%).
- Forty-six percent (46%) of the survey respondents indicated they received no government assistance through General Assistance, Food Stamps, WIC, SSI/SSDI, Cal Works, Medi-Cal/Medi-Care, Social Security or Veteran’s Benefits.

Blue Ribbon Commission and Destination: Home – According to the most recent homeless count in 2006, there are approximately 7,600 unhoused people on any given night in Santa Clara County. To address the issue of homelessness in Santa Clara, the Blue Ribbon Commission on Ending Homelessness was established. The commission’s goal is to provide direction and support for a comprehensive approach to ending homelessness in ten years. The charge of the Blue Ribbon Commission is:

- Review and adopt a set of implementation policies based on the recommendations of the Working Groups.
Launch a regional public education campaign on homelessness and affordable housing, based on successful practices in other areas, to educate community leaders and the public and encourage support for solutions.

Develop or access new sources of funding to create more affordable housing units and housing services to prevent and end homelessness.

Establish realistic goals based on effective models of service and establish measurements for continuing success.

**Special Housing Needs**

Special needs groups, such as persons with mental or physical disabilities, single-parent families, new immigrants, seniors, persons with HIV/AIDS, and seniors have specific housing needs. Some of these special needs can include additional social services, including child care, medical services, social workers, transportation assistance, and deeper subsidies. The City can address some of these needs through the development of affordable housing and the provision of rental and homebuyer assistance. The programs used to address the specific needs of these groups are discussed in detail in the City’s 2005-2010 Consolidated Plan and the 2003 Analysis of Impediments to Fair Housing Choice (AI).

Specifically, the AI provides an overview of laws, regulations, conditions and other possible obstacles that may negatively affect an individual or household’s access to appropriate and affordable housing. The programs will also be discussed in the forthcoming 2009-2015 Housing Element.
HOUSING CHARACTERISTICS in San Jose

The City of San José has 301,578 housing units and sixty-two (62) percent are owner-occupied. Fifty-six (56) percent of the housing stock is single-family homes, while ten (10) percent are one-unit attached units. Nearly nine percent (9%) of the housing stock is large multi-family buildings with 50-plus units. Of the total housing stock, the San José Housing Department has assisted in the development of 18,705 affordable units, 1,876 units of which were completed between 1981 and 1988 and 16,829 units between 1988 and 2007.

Vacancy Rate

A certain rate of housing vacancy is considered healthy, as it allows for mobility and provides choices. In general, a healthy housing market is expected to maintain a five percent vacancy rate for rental units and a two percent vacancy rate for ownership units. In 2000, the average vacancy rate for rental housing in San José was only 1.5 percent (see Table B). By 2005, the vacancy rate had increased to an average of 6.6 percent. In 2007, the vacancy rate has fallen to 3.4 percent, the lowest since 2000. This has led to a concurrent increase in rental rates across all rental unit types.

Table B: San José Rental Housing Vacancy Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.5%</td>
</tr>
<tr>
<td>2001</td>
<td>5.7%</td>
</tr>
<tr>
<td>2002</td>
<td>7.8%</td>
</tr>
<tr>
<td>2003</td>
<td>8.1%</td>
</tr>
<tr>
<td>2004</td>
<td>7.2%</td>
</tr>
<tr>
<td>2005</td>
<td>6.6%</td>
</tr>
<tr>
<td>2006</td>
<td>4.8%</td>
</tr>
<tr>
<td>2007</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Source: Real Facts

REALFACTS, Market Overview of San José for fourth quarter of 2006
As vacancy rates in San José continue to decrease, rents for all types of rental units have increased (See Table B).

**Cost Burden**

As the tenth largest city in the nation, the City of San José has a population of 973,672 and 301,578 housing units. Housing cost burden affects both renters and homeowners in San Jose. Of San José’s 179,518 owner-occupant households, 46 percent pay more than 30 percent of their income on housing costs. Both income and age appear to correlate with housing burden.

Of the 111,310 San José households that live in rental units, nearly half (53,205 households) pay more than 30 percent of their income on rent, while over one-quarter (28,727 households) pay more than 50 percent of their income. Housing burden disproportionately impacts rental subgroups of different age and income categories.

**Housing Costs**

There is a striking need for affordable housing in Santa Clara County due to the high cost of living in the area. In December 2007, the median sales price for a single family home in San José was $699,000, a 147 percent increase from December 2001. The median sales price for a condominium in San José in December 2007 was $452,000, a 143 percent increase from January 2001.

The National Association of Homebuilders publishes reports on housing affordability throughout the United States. Its Housing Opportunity Index compares median family incomes and median sales prices for 180 housing markets throughout the country. The percentages shown in Chart 6 represent the percent of median-priced homes in the area that are affordable to the metropolitan region’s median income. For the fourth quarter of 2007, approximately 15.5 percent of homes in the San José Metropolitan Region (Santa Clara County) were affordable to residents with the median household income. Of the ten metropolitan regions studied, San José was the fifth least affordable, behind Los Angeles and San Francisco (see Chart 1).

---

8 Santa Clara County Association of Realtors (SCCAOR), [http://www.sccaor.com/](http://www.sccaor.com/)
Although San José continues to have one of the most expensive rental markets in the nation, since 2000, the region’s residential rents for all types of units have declined. Table C illustrates the decrease in the monthly rents for all types of apartments, and the steady increase that has occurred since the 4th Quarter 2005.
Housing is generally considered “affordable” if a household pays no more than 30 percent of its total income on housing costs. The term “affordable housing” typically describes residential units that have rent or price restrictions that ensure the units’ continued affordability.

San José – and Santa Clara County as a whole – is a diverse community with a range of housing needs. High housing prices make it difficult for moderate-income families, let alone minimum-wage workers, to afford housing. The following chart compares the median annual income for a few representative professions with the annual salary needed to afford one-, two-, and three-bedroom units in Santa Clara County, assuming the individual pays 30 percent of their income on rent and is a single income household. (See Chart 2)

---

Chart 2: San Jose Rental Rates vs. Mean Annual Wages for Santa Clara County Service Workers in 2007

According to the Center for Housing Policy’s *Paycheck to Paycheck* report finds that in order to qualify for a mortgage to purchase a home at $649,000, a household would need to earn at least $212,013 annually to afford the median priced home in the County.¹⁰

¹⁰ The calculations include principal, interest, taxes, and insurance.
Poverty

The federal poverty guideline is often used to determine income eligibility for public programs and to allocate federal funding to communities. The federal poverty guideline, which was developed in the 1960s, is based on the cost of the basic food budget needed to meet minimum nutritional requirements. It does not take into account housing, transportation, and medical costs. In addition, the amount does not vary by geography. For 2007, the annual income for a single person was $10,210 and was $20,650 for a family of four. Over the next year, the City will work with legislators and a growing coalition of groups in California to re-define the self-sufficiency standard. Also, the City will continue to be involved with Step up Silicon Valley, a County-wide effort to Cut Poverty in Half by 2020.
CITY HOUSING POLICIES

The 1988 Mayor’s Task Force on Housing developed the initial policies that governed the City’s affordable housing program. Since that time, the City has adopted a series of five-year plans to govern the allocation of affordable housing funding. Policies included in the Consolidated Plan, the Ten-Year Plan to End Chronic Homelessness, and the Housing Element are incorporated into the City’s Five-Year Plan, contribute to the creation of a comprehensive Citywide housing vision, and ensure that affordable housing resources are distributed equitably and serve those most in need.

Faced with competing priorities and limited resources, the City must develop policies that balance these concerns while continuing to provide the greatest good to the largest number of residents.

GUIDING principles

The following principles form the basis for the policy framework that governs the City’s affordable housing program.

Public Purpose Lending

The City is a public purpose lender, rather than a direct developer of housing. Working in partnership with developers, the Housing Department provides gap financing for the development, preservation and rehabilitation of housing. Public purpose loans are made on much more generous terms than available from commercial lenders, with below-market interest rates, flexible repayment provisions, and the like. To the extent possible, the City seeks the best return on its investment to ensure that loans are repaid and funds are returned to the City, which can be reinvested in future affordable housing projects.
**Long-Term Affordability**

The City’s priority is to provide solutions to the housing problems of those most in need, from the extremely low-income family, to the homeless individual, to the first-time home buying teacher. Toward this end, the City’s goal is to develop, preserve and maintain housing that is affordable for the longest possible time. In most cases, rental housing will remain affordable for at least 55 years.

**High-Quality Development**

The City is committed to developing affordable housing that makes a positive contribution to the neighborhoods in which it is located. The goal is to ensure that housing financed by the City is of excellent design and construction, and is well maintained and managed. The City strives to create new housing that is attractively designed and durable and blends well into neighborhoods. Many City-financed developments have won awards for their design and construction.

**Partnerships**

Partnerships between the City and the development community are the foundation for the success of the affordable housing programs. The City works side-by-side with housing developers to implement Council-adopted policies and implement production goals.

**MEASURING PERFORMANCE: Review of City’s Previous Five-Year Plan**

**Dispersion Policy [Council Adoption November 1988, Amended August 1997]**

**EXISTING POLICY:** The City’s Dispersion Policy is a positive statement that encourages affordable housing development throughout San José to achieve socio-economic integration at the neighborhood level. The Dispersion
Policy applies only to newly-constructed, City-financed housing that is affordable to extremely low-, very low-, and low-income households. The policy does not apply to moderate-income developments, projects involving rehabilitation, or the acquisition and rehabilitation of existing buildings. No area of the City should be arbitrarily precluded from consideration as a site for affordable housing.

**PERFORMANCE TO DATE:** Since 1988, approximately 78 percent of the City’s newly constructed affordable housing developments have been developed outside of “impacted” census tracts.

**Community Facilities [Council Adoption 1988]**

**EXISTING POLICY:** In its Notice of Funding Availability (NOFA), the City requires that all of the projects it funds incorporate high-quality design and amenities. The amenities provided within a development may include recreation space, such as open space, play areas, or swimming pools, health care facilities, or commercial space. In addition to on-site amenities, when scoring funding applications, the City provides points based on a project’s proximity to support services and facilities, such as public transit, parks, recreational facilities, community centers, and shopping.

**PERFORMANCE TO DATE:** The majority of City-subsidized affordable housing developments have some type of on-site recreation facilities such as swimming pools, play areas, recreation rooms, libraries, community space, and barbecue areas that are available for resident use. Some of the developments offer amenities, such as day-care centers, and computer learning and community center. Due to legal restraints on funding sources and financial feasibility issues, these neighborhood-serving facilities are located on separate parcels from the City-assisted residential units and are financed with non-City funds.

**Mixed-Income Housing [Council Adoption 1988, Amended 2007]**

**EXISTING POLICY:** The City’s policy is to encourage income integration at the project level, including market rate housing, within each housing project. The affordable units in these mixed-income developments should be indistinguishable in terms of design, construction, and amenities as the market-rate units.
On occasion, the City has worked with housing developers in structuring “80-20” and “60-40” deals, in which a portion of the units are market-rate and the remainder are affordable (for example, in 80-20 deals, 20% are affordable). These projects represent an important resource, and often do not require any City subsidy.

PERFORMANCE TO DATE: Since FY 2004-05, the Housing Department has assisted in nine 80-20 or 60-40 deals. Additionally, projects produced under the Inclusionary Housing Policy have been required to produce 20% of the units at affordable housing prices, with the remainder priced at market rate. This has resulted in the development of 665 affordable units in market rate developments.

RECOMMENDED POLICY CHANGE: Amend the Mixed Income Housing Policy to include language that states to the extent feasible, the City encourages ELI units mixed effectively among other low-income and market rate units.

Single-Room Occupancy Policy [Council Adoption May 1997, Amended 2006]

EXISTING POLICY: The City of San José’s Zoning Ordinance defines Single Room Occupancy (SRO) Living Unit Facilities as residential facilities in which individual secure rooms, of a smaller size than normally found in multiple dwellings, are rented to one- or two-person households.

SRO developments provide invaluable affordable housing opportunities for extremely low- and very low- income individuals and two-person households in close proximity to transit and neighborhood services. The City has four main criteria when considering the construction of a new SRO development:

- **Location**– SROs can be located in any area of the City, including the Downtown core. Residents of future SROs located in the Downtown core will benefit from the close proximity to an abundance of services, public transportation options, and jobs. All SRO developments must be located within 1,200 feet of public transportation. All SRO developments should be located within 2,000 feet of neighborhood retail services, or within 1,200 of public transportation with direct access to such services.

- **Parking**– The SRO ordinance allows for parking space reductions given certain conditions, such as its proximity to public transportation.
Management- Every SRO development, whether or not it has received financing from the City, must have a Housing Department-approved management plan which includes the provision of 24-hour on-site management.

Amenities- Every SRO development should have laundry facilities, a communal kitchen, and public meeting areas on site. Every unit must have a refrigerator and some appliance for heating food. The development must have at least one bathroom for every two units.

PERFORMANCE TO DATE: To date, the City has assisted in the development of over 1,000 SRO units, 43 percent of which are affordable to extremely low-income persons, 51 percent to very low-income persons, 3 percent to low-income persons, and the remaining 1 percent to moderate income residents.

For-Sale Housing [Council Adoption 1988, Amended in 2007]

EXISTING POLICY: Although the City has historically focused its funding on multifamily rental housing, ownership housing also forms an important component of its affordable housing program. While San José’s median family income is high compared to other jurisdictions, so are the City’s housing prices, making it a challenge for even those residents earning the median income to buy a home without assistance. To help San José residents purchase their first home, the City has several programs:

(1) **Forward Commitments** - The City works with developers to make a commitment, prior to the completion of a for-sale development, to provide second mortgages to its future residents.

(2) **State Funding** - The City applies for State funding, through programs such as the Building Equity and Growth in Neighborhoods Program (BEGIN), to provide second mortgage assistance to first-time homebuyers purchasing units in newly-constructed developments.

(3) **Neighborhood Housing Services of Silicon Valley (NHSSV)** - The City partners with NHSSV to serve first-time homebuyers with mortgage assistance, education, and counseling.
Teacher Homebuyer Program- The City administers the San José Teacher Homebuyer Program, which provides downpayment assistance to San José public school teachers.

San José State Faculty Homebuyer Program- The City partners with San José State University to provide second mortgage assistance to SJSU faculty and other University education professionals to enable them to purchase their first home.

Second-Mortgage Loan Commitment Program – In March 2008, City Council approved a Notice of Funding Availability (NOFA) for $10 million. The funds will be used in a second-mortgage loan commitment program. The program will provide homebuyer assistance to 166 or more low- and moderate-income households and will assist developers to successfully market for-sale housing units.

PERFORMANCE TO DATE: To date, the City has assisted more than 850 households in purchasing a home by providing second mortgage financing. Additionally, the City has assisted over 600 teachers to buy homes through the Teacher Housing Program.

PRODUCTION POLICIES: preserving UNITS AT RISK

Acquisition/Rehabilitation Policies [Council Adoption 1988, Amended in 2007]

EXISTING POLICY: The City encourages the acquisition and rehabilitation of existing market-rate housing to provide new affordable housing opportunities and preserve housing at risk of being lost to the affordable housing stock. In considering whether to finance the acquisition/rehabilitation of an existing rental complex, City policy requires that at least one of the following criteria is met:

1) Neighborhood Improvement: The existing housing development causes serious “blight” to the surrounding neighborhood, and the rehabilitation of the project would make a significant contribution to revitalizing the neighborhood;
2) **Preservation Project:** The apartment complex is affordable, but has affordability restrictions that are expiring, resulting in the units’ rents increasing to market rate; or

3) **Economic Benefit:** When it is financially advantageous for the City, such as if the amount of gap financing being requested is extremely low or the needed per-unit subsidy is very low.

4) **Extremely Low Income Units:** A project that includes a minimum of 10% ELI units and involves a reasonable cost to the City in order to help meet the City’s affordable housing goals.

**PERFORMANCE TO DATE:** To date, the City has assisted in the acquisition/rehabilitation of 3,216 units and 36 shelter beds.

**Housing Preservation [Council Adoption June 1998]**

**EXISTING POLICY:** In the late 1990s, the City became concerned about the number of affordable housing units at risk of converting to market rate due to expiring project-based Section 8 contracts or the potential prepayment of federally-insured mortgages. To address these concerns, the City Council approved a series of actions to foster the preservation of these affordable units.

Based on the availability of funds, the federal government renews some of the Section 8 contracts on a year-to-year basis. However, some of the projects require other types of assistance to maintain them as affordable, such as purchase by a nonprofit, or financial subsidies.

**PERFORMANCE TO DATE:** Since 1998, 2,706 units in at-risk developments have been preserved. The vast majority of the at-risk developments are now owned by nonprofits with an interest in preserving the units as affordable. Some of the units owned by profit motivated entities were preserved due to the willingness of the owners to renew their Section 8 contracts for one to five years. The preservation of other units in developments owned by for-profit entities required the infusion of additional capital. This financing largely came from non-City sources, such as tax-exempt and taxable bonds, and low-income housing tax credits.
**Rental Mediation and Arbitration Ordinance [Council Adoption September 1979, Amended 2002 and 2003]**

**EXISTING POLICY:** On September 7, 1979, and amended in 2002 and 2003, the City Council adopted an ordinance establishing the San José Advisory Commission on Rents, the Rental Dispute Mediation and Arbitration Process, and the Rental Dispute Mediation and Arbitration Hearing Process. The ordinance restricts annual rent increases for apartment units in triplexes or larger built prior to September 7, 1979, to a maximum of eight percent after twelve months and 21 percent if it had been longer then 24 months since the previous rent increase. The ordinance allows tenants to petition the Rental Dispute Program to contest rent increases beyond the allowable rates, service reductions, or violations of basic rights.

The law regarding evictions for non-rent controlled units is largely set forth in State statutes. However, as of July 1, 2003, the City of San José implemented an additional requirement for landlords of non-rent controlled buildings with three or more units in the City of San José. This new requirement is in the San José Municipal Code, Part 7 of Section 17.23, known as the Rental Dispute Mediation and Arbitration Ordinance.

**PERFORMANCE TO DATE:** Currently, there are approximately 42,500 rental units and 22,000 non-rent controlled units covered under the City’s Rental Mediation and Arbitration Ordinance. From FY 2002/2003 through FY 2005/2006, 233 petitions were filed with the Rental Rights and Referral Program regarding rent increases, code issues, and 60-day notices to vacate premises. Over half (57%) of the petitions filed related to housing codes or service reductions. The majority of the landlords in these cases agreed to resolve the complaints voluntarily.

**Mobilehome Rent Ordinance [Council Adoption 1985]**

**EXISTING POLICY:** In 1985, the City Council adopted a rent control ordinance specifically for mobilehomes. The Mobilehome Rent Ordinance applies to mobilehome lots that were issued plumbing, electrical, or sewer permits prior to September 7, 1979. The ordinance allows mobilehome park owners to increase rents between three and seven percent annually, based on 75 percent of the Consumer Price Index. Park owners must petition for a hearing if they want to increase rents above the maximum allowable amount.

---

**Chart 1: Number of Mobilehomes in 2006**

<table>
<thead>
<tr>
<th>Mobilehomes</th>
<th>12,241</th>
<th>9,965</th>
<th>6,232</th>
<th>3,153</th>
<th>282</th>
<th>168</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Los Angeles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Santa Rosa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Francisco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oakland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PERFORMANCE TO DATE: Approximately 11,000 mobilehomes in 58 mobilehome parks are covered under San José’s Mobilehome Rent Ordinance. San José has the largest number of mobilehomes in the San Francisco Bay Area, and the most in the State (see Chart 1).

PRODUCTION POLICIES: improving EXISTING HOUSING

Rehabilitation [Council Adoption 1995 [for 75% rule] and 2000 [for adoption of SNI]]

EXISTING POLICY: The City’s Housing Rehabilitation Program provides loans, grants and technical assistance to help property owners repair and improve their primary home, or in some cases, their rental property. In 1995, the City codified the Program’s emphasis on the health and safety of residents by prioritizing health and safety repairs, while de-emphasizing expensive, non-mandatory repairs.

Several of the City’s Strong Neighborhood Initiative (SNI) areas identified housing rehabilitation as a priority. The City set a target of spending 75 percent of the Housing Rehabilitation Program’s funds (not including the monies used for mobilehomes) in SNI target neighborhoods.

PERFORMANCE TO DATE: Between FY 2002/2003 and FY 2005/2006, the City awarded nearly $14 million to 1,333 rehabilitation projects, for a total of 1,640 rehabilitated units. Of this dollar amount, 62 percent was spent in SNI areas.

Resources have been focused in SNI areas through a program known as Project Alliance, a comprehensive housing rehabilitation program and partnership that targets neighborhoods with four- and six-plex developments. This targeted program was developed in collaboration with property owners, tenants, consultants. Over the past five years the program has assisted over 330 multi-family units.
**Definition of “Substantial Rehabilitation” [Council Adoption April 1993]**

**EXISTING POLICY:** The City defines “substantial rehabilitation” as rehabilitation work that costs more than 25 percent of the median sales price of San Jose single-family homes. For example, if the median sales price of a single-family house is $700,000, rehabilitation is substantial if the cost of rehabilitation exceeds $175,000. Such loans are limited to those properties whose after-rehabilitation value is not more than 110 percent of the median sales price of single-family homes in San José. All substantial rehabilitation loans require an affordability restriction, for a minimum of 45 years for owner-occupied properties.

**PERFORMANCE TO DATE:** The City of San José Housing Department currently has approximately 40 substantial rehabilitation loans in its portfolio. Due to the increase in home prices in San José, the City has not made any new substantial rehabilitation loans in the past five years.

---

**Cost Containment [Council Adoption January 1992]**

**EXISTING POLICY:** In order to contain per-unit rehabilitation costs, the City adopted a policy to target at least 80 percent of the Rehabilitation Program’s funding to projects costing less than $55,000. The remaining 20 percent of the program’s funds are to be targeted equally between projects that cost $55,000-$75,000, and those that cost in excess of $75,000.

**PERFORMANCE TO DATE:** Since 2001/2002, at least 90 percent of the City’s rehabilitation projects have required $55,000 or less.
MAXIMIZING funding

Leveraging [Council Adoption 1988, Amended 2007]

EXISTING POLICY: In 1988, in acknowledgement of the increasing need for affordable housing and the limited amount of funding available to finance construction, the City Council made it a priority to leverage City funds with other government and private sources. The City’s goal is to leverage a minimum of $2.5 for every dollar of City funds. Under the City’s most recent Notices of Funding Availability, to receive the maximum number of points, the project must have a leveraging ratio of $3 or more of outside funding for every $1 of City funds.

PERFORMANCE TO DATE: Since 1995, the City has leveraged $2.5 outside dollars for affordable housing developments for every $1 of City funds. As the City targets funding of additional ELI units, it should be noted that the amount of subsidy dollars needed to make these units affordable is greater, resulting in a reduced leveraging of funds.

RECOMMENDED POLICY CHANGE: In recent years, given the deep subsidy needed to make affordable housing work, the City’s leveraging has been closer to 2.60:1. If the City continues to deeply subsidize extremely low-income units, the City should consider having a leveraging goal, rather than a policy. The leveraging goal should be changed to 2.5:1.

Tax Allocation Bonds [Council Adoption April 1990]

EXISTING POLICY In 1990, the City Council, adopted the “Expanded Affordable Housing Program,” which pledged future tax increment to secure bonds to finance the immediate development of affordable housing. Using this bonding strategy, the City can accelerate the development of critically-needed affordable housing.

PERFORMANCE TO DATE: Since the policy was adopted, the City has sold more than $450 million in tax allocation bonds to fund the development of affordable housing. It is anticipated that the City will issue an additional $140 million in bonds to fund affordable housing construction for the next five years.
**Equity Share Loans [Council Adoption 1993, Amended 2004]**

**EXISTING POLICY:** California law allows local agencies administering 20% Redevelopment Funds to allow assisted for-sale units to be sold at market value if the agency has adopted a program to “protect the 20% Funds.” This is referred to as a “buy-out” provision because the borrower pays the Agency a fee, or “equity share,” in addition to the regular loan repayment requirements to remove the affordability restriction from the property. The additional fee the Agency receives compensates the agency for the loss of the affordable unit and can be reinvested to make another unit affordable to a low- or moderate-income household.

Prior to 1993, the City provided a number of buy-out options for persons who received loans for substantial rehabilitation, new construction, and first-time homebuyer assistance. In 1993, to ensure that the buy-out provision was standardized and easily understandable, the City Council adopted the equity share as the buy-out provision for all homeowner affordability restrictions. In 2004, the City revised the equity share buy-out provision for borrowers who have had substantial rehabilitation loans for longer than five years to ensure that they are not disadvantaged.

**PERFORMANCE TO DATE:** Annually, the City collects approximately $2 million in equity share payments when homebuyers sell or transfer their homes.
SERVING those in need

Income Allocation Policy [Council Adoption October 1995, amended 2007]

EXISTING POLICY: To ensure that the City’s housing programs focus on assisting residents with the greatest need, the City targets 85 percent of its funding to lower-income households (those earning 80 percent of the median area income or less)\(^1\). A minimum of 60 percent must be targeted to very low-income households.

In 2007, the City Council changed the policy to target 30 percent of the City’s housing funding to extremely low-income units. In making ELI housing a priority, the Council approved a plan to: 1) partner with service providers to better target and provide needed services to ELI households; 2) integrate ELI units with various different types and income levels within projects; 3) seek leveraged funds to maximize the number of ELI units; and 4) maximize other, outside, funding resources in order to deepen affordability.

No more than 15 percent of the City’s affordable housing funding is targeted to moderate-income households (those earning between 81% and 120% of the area median income). Funds for moderate-income housing assisted by the City are used for ownership programs rather than for rental housing, because moderate-income rents are at or above market-rate rents, as is also the home sale prices.

The Housing Department has further strengthened and deepened affordability in its funded projects by requiring that developers provide, under the City’s Project Development NOFAs, at least 25% of units affordable to ELI households.

---

\(^1\) The definition of lower-income housing in San Jose can change each year with the publication of the annual income limits by the State Department of Housing and Community Development. While low-income is now defined as between 51-80% of area median income, the top end of low-income has been as low as 59.5%.
PERFORMANCE TO DATE: From FY 2001/2002 through FY 2006/2007, 97 percent of the units receiving City financial assistance for new construction, rehabilitation, and acquisition/rehabilitation were restricted to households earning low incomes or less, as illustrated in Chart 3 below:

**Chart 3: Income Allocation Distribution FY 2001/2002 to FY 2006/2007**

<table>
<thead>
<tr>
<th>Income Allocation Policy</th>
<th>Homebuyer Programs</th>
<th>New Construction (Completed)</th>
<th>Rehabilitation</th>
<th>Acquisition/Rehabilitation</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low-Income**</td>
<td>60%</td>
<td>NA</td>
<td>57%</td>
<td>71.5%</td>
<td>36.0%</td>
</tr>
<tr>
<td>Low-Income</td>
<td>25%</td>
<td>16.4%*</td>
<td>36%</td>
<td>27.5%</td>
<td>63.0%</td>
</tr>
<tr>
<td>Low-Income Total</td>
<td>85%</td>
<td>16.4%*</td>
<td>93%</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Moderate-Income</td>
<td>15%</td>
<td>83.6%*</td>
<td>6%</td>
<td>1.1%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*The data is from July 2005-2007, previous data is unavailable.
** In future years due to changes made to the income allocation policy this will represent 30% Extremely Low-Income and 30% Very-Low Income.

RECOMMENDED POLICY CHANGE: Change the City’s “85/15 Policy” to include deeper affordability levels within the 85% as follows: 30% (ELI), 30% (VLI), and 25% (LI). Recommend adopting a strategic policy that would emphasize the City’s affirmative efforts to target housing for those most in need including extremely low-income households. The policy would memorialize the City’s goal of targeting ELI individuals and families by using the following principles: 1) partnering with service providers to better target and provide needed services to ELI households; 2) integrating ELI units with various different types and income levels within projects; 3) seeking to appropriately leverage all funds to receive the greatest number of ELI units; and 4) maximizing other, outside, funding resources in order to deepen affordability.

Targeting Larger Families with Housing Assistance [Council Adoption 1988]

EXISTING POLICY: In 1988, the City Council supported the determination made by the Mayor’s Task Force on Housing that large families have a difficult time securing affordable housing that is large enough to accommodate their
families. Because there are very few rental units with four or more bedrooms, many large families are forced to live in overcrowded conditions. The 2000 U.S. Census reported that 18 percent of all San José households lived in overcrowded conditions versus 15 percent of households in New York City, and 10 percent of households in Chicago.

In order to encourage developers to include larger units in their developments, City policy supports giving additional points in program NOFAs for projects that contain larger units.

**PERFORMANCE TO DATE:** Since FY 2001/2002, 17 percent of the units, or approximately 630 units, in affordable family developments that completed or began construction had at least three bedrooms.

**Ten-Percent Set-Aside in City-Financed Developments for Section 8 Recipients [Council Adoption June 1998]**

**EXISTING POLICY:** As part of its efforts to address the problems of expiring Section 8 contracts, the City adopted a requirement in 1998 that all developers of affordable housing that is financed in whole or in part with City funds must set aside 10 percent of their units for Section 8 tenants. This requirement includes projects that received loan and grant commitments from the City, as well as those projects for which the City issued tax-exempt bonds. This requirement has been critical in times of high rents, when rental owners may not be as willing to rent to Section 8 tenants.

**PERFORMANCE TO DATE:** As of May 2007, 2,381 Section 8 voucher holders were living in affordable housing units subsidized by the City. Of the 205 affordable housing projects that have been financed and completed by the City, 44% have at least one Section 8 voucher holders. Of these, 31% have at least 10 percent of their units occupied by Section 8 tenants.

**Assistance to Teachers [Council Adoption in 1999, Amended in 2006 and 2007]**

**EXISTING POLICY:** Due to the high cost of housing in San José, many local public school teachers find the purchase of their first home out of reach, making it difficult to recruit and retain qualified teachers in San José public schools.

In 1999, the City created the Teacher Housing Program (THP), which provides deferred-payment second mortgage loans to help public school teachers purchase their first home.
Although the City primarily assists teachers with first-time homebuyer's assistance, it has also provided financing for rental developments targeted to teachers.

San José State University (SJSU) has also found it difficult to recruit and retain faculty and staff. In January 2006, the City approved a pilot Homeownership Program for SJSU tenure track faculty. This program, funded by SJSU and the City, is modeled after the THP and provides downpayment assistance of up to $65,000. In 2007, the City amended the Faculty Homebuyer Program to allow for other SJSU education professionals to quality for assistance. In 2007, the City worked with the San José Educational Foundation to create the Teach Here, Live Here (THLH) program that provides move in assistance to new teachers renting homes in San Jose.

**PERFORMANCE TO DATE:** In January 2006, the City celebrated the 500th teacher recipient of its Teacher Homebuyer Program. By February 2008, the City had provided homebuyer assistance to 611 teachers for a total of $30 million. This achievement was made possible by leveraging THP funds with other assistance programs offered by the California Housing Finance Agency, the County of Santa Clara, the Housing Trust of Santa Clara County, and Neighborhood Housing Services of Silicon Valley.

**RECOMMENDED POLICY CHANGE:** Pilot a rental assistance program that would provide move in assistance to teachers in partnership with the Silicon Valley Leadership Group and the school districts.

## ADDITIONAL proactive EFFORTS

**Land Acquisition [Council Adoption 1988]**

**EXISTING POLICY:** The City has an aggressive program to identify and acquire suitable sites for affordable housing development. As part of this program, the City prioritizes the use of City surplus land for affordable housing purposes, as appropriate. In addition, the City pursues surplus land through other governmental or quasi-governmental agencies, such as the Valley Transit Authority and local school districts.

**PERFORMANCE TO DATE:** To date, the City Council has approved the purchase of surplus properties that cover 29 acres of land, and will provide almost 1,000 units of affordable housing.

**EXISTING POLICY:** State law requires that a minimum of 15 percent of all new or substantially rehabilitated residential units developed within a Redevelopment Project Area must be affordable to lower- and moderate-income households. The City and Redevelopment Agency have adopted the following policies to implement the inclusionary housing policy:

- Developers of for-sale housing may choose to either make at least 20 percent of the units affordable to moderate-income households or provide at least six percent of the units affordable to very low-income households and nine percent of the units affordable to low- and moderate-income households.

- Developers of rental housing must make at least eight percent of the units affordable to very low-income households and 12 percent of the units affordable to low-income households, with rents in the latter units limited to 60% of AMI. If the stand-alone rental project is restricted at no higher than 25 percent extremely low-income and 75 percent very low-income without City subsidy, the overall affordable obligation is 15 percent of the total units built.

Although, the City Council has expressed support for incorporating the affordable units within the development in order to achieve socio-economic integration, the policy provides several alternatives that developers can select should they choose not to incorporate the units within the development:

- Developers may pay fees to satisfy the requirement in-lieu of constructing the affordable units within private housing development. Fees are set annually and are adjusted by examining the cost to developers to include affordable units within developments.

- Developers have the option of building a stand alone rental (100 percent affordable) project. The project must be adjacent to or within the same Redevelopment Project Area (with exceptions for small project areas) and can be used to satisfy an obligation requirement for one or more market rate development. The income mix of the project must be no higher than 40 percent very low-income/ 60 percent low-income (at 60 percent AMI).
The in-lieu fee for downtown high-rises is $8.50 per net square foot and can not exceed $13,000 per unit. The fee is fifty (50) percent less than the fees for rental and for-sale townhouses, single-family homes, and high rises not located in downtown. The fee reduction encourages development within the City’s downtown.

Developers may donate land for construction to meet the obligation.

Developers may pool or transfer credits for the affordable units built in stand alone projects.

Developers may use a combination of the above to meet the obligation.

**PERFORMANCE TO DATE:** Between FY 2003-04 and 2005-06, 1,898 affordable units were constructed within redevelopment project areas. As of November 2006, 651 high-rise residential units, in three housing developments that were exempted from the inclusionary requirement, were under construction in the Downtown Core.

**RECOMMENDED POLICY CHANGE:** Expand the City’s current inclusionary policy to include the following: (1) Provide flexibility to developers to pay in-lieu or transfer land to non-profit developers to fulfill inclusionary requirements; (2) adjust current in lieu fees to better reflect the actual costs of providing affordable units; (3) deepen the required affordability levels under the inclusionary housing policy for rental developers; (4) institute a program to entice developers in the Downtown Core Area to build high-rise housing; and, (5) consider expansion of the City of San José’s inclusionary housing policy to include large special planning areas, conversions of planned land use from industrial to residential, and consider adopting a Citywide inclusionary policy.

**Transit-Oriented Development: Housing Initiative and Housing Opportunity Study [Council Adoption April 1991 and January 2000 respectively]**

**EXISTING POLICY:** In 1991, the City Council approved the Housing Initiative, which encourages the production of high-density housing along San José’s transit corridors. The Housing Opportunity Study (HOS) was a three-phase effort, initiated by the City in January 2000, to identify vacant or underutilized sites that are suitable for high-density residential or mixed
residential/commercial developments. In order to promote the efficient use of land in close proximity to transit, the study primarily focused on the City's six Transit-Oriented Development Corridors.

**PERFORMANCE TO DATE:** In Phase I of the HOS, completed in February 2001, General Plan amendments were made for 13 sites, to designate them as suitable for high-density residential or mixed residential/commercial developments that could accommodate up to 6,000 units. In Phase II of the HOS, completed in June 2002, General Plan amendments were approved for four additional sites as suitable for high-density residential or mixed residential/commercial developments that could accommodate up to 1,800 new housing units. As part of Phase III of the HOS, in December 2004, the General Plan was amended to include four additional sites as suitable for high-density residential or mixed residential/commercial development that would accommodate up to 575 new housing units.

North San José was included as part of Phase III of the HOS. This primarily industrial area is home to many of the City's high-tech companies and is an important employment center for the City. The North San Jose Plan supports the conversion of specific sites from industrial use to high-density residential use, based upon specific criteria compatible with industrial activity. The Plan envisions the development of 32,000 new housing units, 8,000 of which will be affordable.

In total, the three phases of the Housing Initiative and Housing Opportunity Study (HOS) have developed eight HOS sites and 89 Housing Initiative sites. As a result, 3,482 HOS units and 12,845 Housing Initiative units have been produced.

**General Plan Flexibility for Affordable Housing Developments [Council Adoption 1984]**

**EXISTING POLICY:** In order to encourage the production of housing units affordable to low- or moderate-income households, a density bonus may be provided under a Planned Development zoning. According to the City’s density bonus policy found in the General Plan, a density bonus for a residentially designated property is allowed for proposed housing projects of five units or more which will contain units affordable to households of very low-, low-, or moderate-income. The percentage of density bonus should not exceed the percentage of proposed units affordable to very low-, low- or moderate-income households except that a density bonus of 50% would be allowed for a project with at least 10% of its units affordable to households of very low income or 20% affordable for households of low income.
PERFORMANCE TO DATE: The City is currently in the process of developing a density bonus ordinance as required by State law. When completed, the ordinance will supplement the density bonus policy currently found in the General Plan.


EXISTING POLICY: In 1992, the City Council adopted an ordinance that suspended construction taxes from newly-constructed, very low-income units through June 30, 2006. The exempted taxes included the Building and Structures Construction Tax, the Construction Portion of the Construction and Conveyance Tax, the Commercial-Residential Mobilehome Park Building Tax (CRMP), and the Residential Construction Tax. In April 2006, the City Council voted to extend the tax suspension through June 30, 2011.

Prior to 1998, housing with occupancy restricted to lower-income households was exempt from paying Park Dedication Ordinance (PDO) and Park Impact Ordinance (PIO) fees. In 1998, in order to ensure that the park and recreation needs of lower-income residents were met, the City suspended the exemption of new units affordable to low- and very-low income households from PDO and PIO fees. However, in lieu of paying the fees, developers of affordable housing could obtain vouchers from the San José Redevelopment Agency (SJRA), thereby providing funds for parkland development without impacting affordable housing developments. On January 1, 2006, the Low-Income Voucher Program associated with PIO and PDO ended, and the exemption for such units was reinstated.

PERFORMANCE TO DATE: From August 16, 1998 to January 1, 2006, the SJRA paid approximately $21.5 million in voucher payments to the City for 43 affordable housing developments. From July 1991 to June 2006, $15.3 million in construction taxes has been waived for newly-constructed, very low-income units.

Green Building [Council Adoption November 2001, Amended in 2007]

EXISTING POLICY: On March 6, 2007, the City adopted a revised Green Building Policy that requires that the City maximize opportunities to incorporate green building
principles and practices into the planning, design, construction, management, renovation, operations and maintenance of all new and existing facilities that are constructed, owned, or managed by the City. In addition, the Policy requires that San José provide leadership and guidance to the private sector by encouraging green building practices in privately developed projects and by exploring incentives for private developers to incorporate Green Building Principles into their projects. In this effort, the Housing Department’s role is to encourage the inclusion of green building features in affordable housing developments, serve as a resource for training and education on green building principles, and maximize outreach opportunities with developers on the benefits of sustainable building and the certification process.

**PERFORMANCE TO DATE:** A number of City-assisted affordable housing developments have incorporated green building design features (including energy star appliances and recycled materials) including Tully Gardens, Betty Anne Gardens, and El Paseo Studios.

**Secondary Residential Unit Program [Council Adoption November 2005 and approved in December 2006]**

On November 14, 2005, the City Council approved an ordinance creating a temporary pilot program for secondary dwelling units. The one-year pilot, from January 1, 2006 through December 31, 2006, established parameters for the development of new secondary units in the R-1 Zoning Districts subject to permit approval and provided for issuance of a maximum of 100 such permits. Existing illegal secondary units (i.e., those secondary units that were built without permits) that meet the pilot parameters are eligible to become legal by obtaining the necessary permits, which would not count towards the 100-unit limit of the pilot.

**PERFORMANCE TO DATE:** As of January 25, 2008, a total of 83 applications for new secondary units had been received with 61 receiving building permits.
FUNDING SOURCES

Developing affordable housing, particularly for very low- and extremely low-income households, requires both deep financial subsidies and creativity. Layers of funding from various sources are often needed to make an affordable housing project financially feasible. The Housing Department works with developers to actively seek and obtain various State, federal, and private funding resources to achieve the City’s affordable housing production goals. The City anticipates a total of nearly $600 million in resources available from local, State, federal, and private sources over the next year for development, preservation, or rehabilitation of affordable housing projects.

CITY programs

Redevelopment Housing Set-Aside Funds (20% Fund)

The City’s main source of funding for affordable housing development is Redevelopment Housing Set-Aside Funds for lower- and moderate-income housing development. Pursuant to California law, redevelopment agencies obtain funding through a method called “tax increment financing.” Once a City Council approves a Redevelopment Plan for a proposed project area, the area has a certain total assessed valuation of real property for tax purposes. If the assessed valuation increases, the funds derived from the increase go to the Redevelopment Agency. The Redevelopment Agency receives the "increment" in increased tax revenue as property values within redevelopment areas increase. The base taxes collected in the project areas continue to go to the city, school district, and other government entities that received them before the project area designation.
Since 1976, California law has required that not less than twenty percent (20%) of the gross redevelopment tax increment must be set aside for "increasing, improving, and preserving the community’s supply of low- and moderate-income housing." These “Set-Aside” Funds are placed by each agency in a separate Low and Moderate Income Housing Fund to be used pursuant to the requirements of State Redevelopment Law. Through a cooperation agreement with the Redevelopment Agency, the San José Housing Department is responsible for the administration of the Low and Moderate Income Housing Fund. Each year, the Redevelopment Agency transfers the required 20% to the Housing Department for affordable housing purposes.

California law also requires tax increment funds to be used to “further the interests of the redevelopment plan,” which generally means these funds must be spent within the boundaries of a redevelopment area unless the City Council makes special findings that the funds are clearly related to the interests of a project area. Because affordable housing is deemed a benefit to project areas, the City of San José uses its 20% funding throughout the City to finance affordable housing development. The City Council makes a benefit finding at the time a project outside of a Project Area is approved.

In FY 2007-08 thru FY 2011-12, the Housing Department is projected to receive $200 million in Set-Aside Funds. The amount of tax increment is projected to be flat over the next five years. In order to leverage this revenue stream, the city will issue Tax Allocation Bonds (TABs) in the next five years, pledging future 20% tax increment revenue to cover borrowing costs. (For more information on the City’s plan for borrowing, see the section entitled “The Next Five Years,” on page 64.)

**Other Requirements of Redevelopment Law**

In spending its Low and Moderate Income Housing Funds, the City must follow State requirements governing the expenditure of funds as well as local policies established by the City Council. The primary requirements that shape the City’s affordable housing program are:
➢ **Affordability Restrictions**—State law requires that rental developments be affordable for a minimum of 55 years and that owner-occupied housing be affordable for a minimum of 45 years.

➢ **Senior Housing**—Funds expended for senior housing must not exceed the percentage that the community’s lower-income population over age 65 bears to the community’s total lower-income population as reported in the most recent Census.

**San Jose Housing Trust Fund**

In June 2003, the City established a Housing Trust Fund (HTF) to be used as a vehicle to fund the City’s homeless services programs that are not eligible for funding from the 20% Fund or other sources available to the Housing Department. Originally called the Housing and Homeless Fund, HTF funds such activities as: support to emergency shelters for unforeseen emergency capital expenditures; jobs programs for the homeless; and homeless prevention programs such as default and foreclosure assistance, and one-time rent payment to prevent eviction. HTF funds used for direct assistance to the homeless or those at risk of homeless are subcontracted to the Housing Services Partnership, a collaboration of local, nonprofit service providers. Ongoing sources of funding deposited into the HTF include bond administration fees, Tax Credit Application Review fees, and other miscellaneous, unrestricted revenues. A one-time revenue source in 2007 was the inclusionary in-lieu fee payment of $4.48 million collected from the Sobrato Group.

**Inclusionary In-Lieu Fees**

In June 2007, the City Council and Redevelopment Agency Board adopted amendments to the Inclusionary Housing Policy requirements applicable to redevelopment project areas. Among other changes, the revised Policy now provides all market-rate developers with the option of paying a fee in lieu of providing the otherwise required affordable units within their projects (previously, only developers of projects between 11 and 20 units could pay the in-lieu fee). It is anticipated that the in-lieu fees could be a significant source of revenue to the Housing Department, though there is no way of predicting the magnitude of such fees so soon after adoption of the new policy. In-lieu fee revenue will be used for financing gap loans and grants to affordable rental housing developers and for assisting income-qualified homebuyers.
OTHER local PROGRAMS

**Housing Trust of Santa Clara County**

In 1999, the Housing Trust of Santa Clara County (HTSCC), a public/private initiative, was established by concerned agencies—including the Community Foundation Silicon Valley, Silicon Valley Leadership Group, and the County Collaborative on Housing and Homelessness—in an effort to address the severe housing problems facing many San José and Santa Clara County residents. The goal of the HTSCC was to raise $20 million for affordable housing. The City of San José helped start the contributions to the fund rolling, with a $1 million commitment that was matched by other public and private contributions, in amounts that eventually exceeded the original goal.

As of 2007, the Trust has raised over $32,000,000. Donors include some of Silicon Valley’s largest employers, many cities, the County of Santa Clara, local foundations and industry associations. To date, the San José Redevelopment Agency has committed $1,500,000 to this effort. More than 6,000 families and individuals have been assisted since the creation of the Fund. Specifically, the Trust has helped 1,866 first-time homebuyers, 3,089 individuals find shelter, and contributed to the construction of over 1,250 affordable rental apartments.

**Santa Clara County Office of Affordable Housing**

On April 9, 2002, the County Board of Supervisors voted unanimously to establish an Office of Affordable Housing (OAH) under the direction of the County Executive’s Office. The County set aside 30% of the funds received from the San José Redevelopment Agency settlement for affordable housing services, and OAH also receives a percentage of the proceeds from the sale of surplus County property.
Affordable Housing Fund – OAH began making loans and grants to non-profit agencies, for affordable housing projects and programs in September, 2003. To date, over $14.5 million dollars has been awarded to affordable housing projects for the creation of affordable housing units for lower-income families.

Homebuyer Programs – The following are OAH programs designed to assist homebuyers:

- **Mortgage Credit Certificate Program** – The Mortgage Credit Certificate (MCC) Program, authorized by Congress in 1984, provides financial assistance to first-time homebuyers for the purchase of single-family homes, townhomes, and condominiums. The Santa Clara County MCC tax credit reduces the federal income taxes of qualified borrowers purchasing qualified homes; thus having the effect of a mortgage subsidy.

- **Downpayment Assistance Programs** - The County administers the Santa Clara County $10,000 and $40,000 Down-payment Assistance Programs (also known as SCC-10K and SCC-40K). The funds for these programs are provided through the American Dream Down-payment Initiative (ADDI) and Home Investment Partnership Act (HOME) of the Department of Housing and Urban Development (HUD).

Homeless Services Program – The Homeless Services Program in Santa Clara County provides a variety of programs to the County’s homeless population. The program is responsible for the yearly federal grant application process and the bi-annual countywide survey of the homeless population. The following describes the major programs provided by the County to address homeless issues:

- **Shelter Plus Care** – Shelter Plus Care (S+C) is a homeless service program which provides housing and supportive services on a long-term basis for homeless persons with disabilities, primarily persons with serious mental illness, chronic problems with substance and drug abuse, and people who suffer from AIDS and other related diseases.
Temporary Assistance to Needy Families – Temporary Assistance to Needy Families (TANF) is a block grant that provides money for states to assist very low-income families. Under TANF, adults must work after receiving cash benefits for twenty-four months. In California, the program is called California Work Opportunity and Responsibility to Kids (CalWORKs).

Mental Health Services Act (MHSA) was passed by a State-wide vote as Proposition 63. OAH is administering the Housing Plus Program -- a $4 million fund, comprised of $ million of MHSA funds allocated to Santa Clara County and $2 million of County Affordable Housing Funds – to provide gap financing to development projects setting aside units for persons with chronic mental illness. To date, $1.5 million of these funds have been awarded.

STATE programs

Department of Housing and Community Development

The State Department of Housing and Community Development (HCD) administers several important programs that leverage the City’s affordable housing resources. In 2002, California voters approved Proposition 46, a $2 billion General Obligation Bond that funded a variety of State housing and homeless programs. (See the chart below for detail on the amount of funding the City and its partners have received to date from Proposition 46.) In 2006, voters approved another measure—Proposition 1C—which provided an additional $2.8 billion for affordable housing efforts. Programs include:

Multi Family Housing Program (MHP) — The MHP provides deferred payment loans to affordable housing developers for the new construction, rehabilitation and preservation of permanent and transitional rental housing for lower-income households.

Building Equity and Growth in Neighborhoods Program (BEGIN) — The BEGIN program provides grants to cities, counties, or cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, including manufactured homes on permanent foundations, in ownership projects with affordability that is enhanced by local regulatory incentives or barrier reductions.
**CalHOME Program** — The CalHOME program provides grants to local public agencies and nonprofit developers to make deferred payment loans to individual households for first-time homebuyer downpayment assistance, home rehabilitation, acquisition/rehabilitation, and other homebuyer assistance.

**Exterior Accessibility Grants for Renters (EAGR)** — The EAGR program provides grants to local government or nonprofit organizations to make exterior modifications to rental housing occupied by lower-income rental tenants with disabilities to make it accessible. The EAGR program will not be available after the 2007 funding cycle.

**Regional Planning, Housing and Infill Incentive Account** — This new program was created with the passage of Proposition 1C and is intended to fund infill incentive grants for capital outlay related to infill housing development. Program parameters are currently being discussed by the State Legislature. At $850 million, this is the single largest pot of money available as a result of Proposition 1C’s passage.

**Parks Funds** — Two new sets of funds were made available for regional and local parks under Proposition 1C. One is $200 million under the “Infill Development” funds and the second is another, stand-alone allocation of $200 million for “grant funding for housing-related parks in urban, suburban, and rural areas.” One of the main goals of the parks component of Proposition 1C is to make funds available for the effective development of parks in conjunction with affordable housing located on infill sites.

**Transit-Oriented Development** — This $300 million program is designed to provide assistance for the development of transit-oriented developments (TODs), and to facilitate the development of higher density housing uses within close proximity to transit stations. The program has two funding pots: 1) grants to localities and transit agencies for infrastructure necessary for the development or connection to new housing; and 2) loans for the development and construction of the housing itself.
**Innovation Fund** — Proposition 1C created a $100 million innovation fund to provide competitive grants or loans for affordable housing and for pilot programs that demonstrate innovative, cost-saving approaches to creating or preserving affordable housing.

**California Housing Finance Agency (CALHFA)**

CalHFA provides below-market rate financing to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving homeownership. Programs include:

- **Multi Family Housing Programs** — These programs provide permanent financing for the acquisition, rehabilitation, preservation, and new construction of rental housing that includes affordable units for low-income families and individuals.

- **Homeownership Programs** — The High Cost Area Home Purchase Assistance Pilot Program (HiCAP) assists first-time homebuyers in high housing cost areas, including Santa Clara County. The HiCAP provides a deferred-payment second loan of $7,500 for down payment assistance and is only available when combined with a CalHFA first mortgage loan program.

- **Mortgage Insurance Programs** — The City takes advantage of two special mortgage insurance programs offered to high cost areas. The California Housing Loan Insurance Fund (CaHLIF) 97 & 3 is a program provides a standard Fannie Mae/Freddie Mac 97% Community Homebuyer Loan in combination with a 3% CaHLIF “sleeping second,” with a resulting combined loan-to-value ratio of 100%. Another program, through CaHLIF/CalPERS, uses a Fannie Mae 97% loan and a 3% CaHLIF “sleeping second” loan.

**Mental Health Services Act** (MHSA) was passed by a statewide vote as Proposition 63. CalHFA administers a program Statewide to provide gap funding to development projects in which units are set aside for persons with chronic mental illness or who are at risk of homelessness. The State Department of Mental Health participates in the underwriting
process to review services plans. For Santa Clara County, there is $19.2 million available, of which approximately 2/3 is available for development and 1/3 for ongoing operating costs and services. The County applies to the State for funding on behalf of pre-approved nonprofit sponsors.

<table>
<thead>
<tr>
<th>Proposition 46: Funding Received</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding Source</strong></td>
</tr>
<tr>
<td>BEGIN</td>
</tr>
<tr>
<td>CalHFA</td>
</tr>
<tr>
<td>CalHome</td>
</tr>
<tr>
<td>Code Enforcement Grant Program</td>
</tr>
<tr>
<td>Exterior Accessibility Grants for Renters</td>
</tr>
<tr>
<td>Emergency Housing and Assistance Program</td>
</tr>
<tr>
<td>Local Housing Trust Fund</td>
</tr>
<tr>
<td>Multifamily Housing Program (MHP)</td>
</tr>
<tr>
<td>Workforce Housing Program</td>
</tr>
<tr>
<td>Self-Help Program</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
</tr>
</tbody>
</table>

*This figure is an estimate based on the average percentage of funds the City receives through various CalHFA programs. CalHFA does not record funds distributed to cities, only to counties.
**California Debt Limit Allocation Committee**

The California Debt Limit Allocation Committee (CDLAC) administers the tax-exempt private activity bond program. Agencies and organizations authorized to issue tax-exempt private activity bonds or mortgage credit certificates must receive an allocation from CDLAC. The City receives regular allocations from CDLAC and issues bonds on behalf of affordable housing developments constructed in San José.

**Tax-Exempt Private-Activity Bonds:** CDLAC administers a Multifamily Rental Housing Bond Program that allows State and local agencies to issue tax-exempt housing revenue bonds for multifamily rental housing development, acquisition, and rehabilitation. CDLAC makes allocations of bond authority for housing development and other activities out of the federally mandated limit on tax-exempt bonds for private activities awarded to California. A minimum of 20% of the units must either be affordable to very low-income households at or below 50% area median income (AMI) or 40% for low-income households at or below 60% AMI.

**Mortgage Credit Certificates:** CDLAC is also responsible for the allocation of Mortgage Credit Certificates (MCC). Through base MCCs, eligible homebuyers increase their ability to qualify for a mortgage loan. MCC recipients may take 15% of the annual mortgage interest payments as a dollar-for-dollar tax credit, thereby reducing their federal income tax bill. The Extra Credit Teacher Home Purchase Program allows an eligible homebuyer using the MCC to take 20% (instead of the base 15%) of the annual mortgage interest payments as tax credit. The County of Santa Clara administers the MCC Program on behalf of San José residents.

**State Low-Income Housing Tax Credits**

With the extremely high cost of developing housing in California, the State Legislature authorized a State low-income housing tax credit program in 1997 to supplement the federal tax credit program. Both federal and State Low-Income Housing Tax Credits are awarded by the California Tax Credit Allocation Committee (TCAC). The State credit is only available to a project which has previously received, or is concurrently receiving, an allocation of federal credits. The annual State credit ceiling for 2007 is approximately $80 million. Investors claim the State credit over a four year...
period, while the allocation period for federal tax credits is ten years. The full four-year State credit allocated to a project is deducted from the State ceiling, while only the annual federal credit allocated to a project is deducted from the federal ceiling. In California, the demand for housing tax credits has recently exceeded the supply by approximately two-to-one (2:1).

**FEDERAL programs**

**U.S. Department of Housing and Urban Development Entitlement Grants**

The U.S. Department of Housing and Urban Development (HUD) provides a range of housing and community development grants to local jurisdictions for a number of different activities. For larger localities, the grants are provided as an “entitlement,” whereby jurisdictions receive a fixed amount annually based on a formula that includes the local population and the proportion of lower-income households.

**Community Development Block Grant (CDBG)** — The primary objective of the CDBG program is to develop viable urban communities by providing decent housing, a suitable living environment, and economic opportunities, principally for persons of lower-incomes. In recent years, the City has received a total annual allocation of approximately $10 million under this Program.

**HOME Investment Partnership (HOME)** — The HOME program provides federal funding for the development and rehabilitation of rental and ownership housing for lower-income households. The program gives the City flexibility to fund a wide range of affordable housing activities through partnership with the private industry and nonprofit organizations. The City has typically received about $4.3

---

1 California Tax Allocation Committee, www.treasurer.ca.gov/CTCAC
million in HOME funds annually.

**Emergency Shelter Grant (ESG)** — The ESG program provides funds to nonprofit service providers that assist persons who are homeless or at risk of becoming homeless. The City has shifted its priorities to funding services that will assist in its efforts to end chronic homelessness, including the provision of housing assistance and essential services such as job training and substance abuse counseling. The City receives an annual allocation of approximately $450,000 in ESG funds.

**Housing Opportunities for Persons with AIDS (HOPWA)** — The HOPWA program provides grant funds to local jurisdictions to provide a wide range of services for persons who are living with HIV/AIDS and who are homeless or at risk of becoming homeless. Eligible uses of funds include the provision of supportive services, tenant-based and project-based rental assistance, and assistance in obtaining mainstream benefits. HOPWA funds are granted to the largest jurisdiction in each county, giving it the responsibility of providing housing assistance to people living with HIV/AIDS throughout the county. The City of San José, as the designated recipient of the HOPWA funds for the counties of Santa Clara and San Benito, receives approximately $1.3 million in HOPWA funds annually. In addition to funding provided to entitlement jurisdictions, HUD provides funding directly to developers.

**Section 202 and Section 811 Programs** — Nonprofit housing developers are eligible for federal grants from HUD for the development of housing for ELI/VLI seniors (Section 202 program) and ELI/VLI individuals with disabilities (Section 811 program). HUD provides development funding plus project-based Section 8 rental subsidies.

**Low-Income Housing Tax Credit**

The federal Low-Income Housing Tax Credit Program (LIHTC) was created by the Tax Reform Act of 1986. The Tax Reform Act permits investors in housing for lower-income households to use tax credits to reduce federal income tax liabilities.
Investors must maintain affordability of the units for no less than 15 years. In return, investors receive a ten-year stream of federal tax credits. The revenue from the sale of these credits to an investor is paid to the project in the form of tax credit equity, resulting in reduction in project debt and increased unit affordability.

Tax credits are allocated to states which in turn make awards to developers against the total State allocation cap. In California, the State Tax Credit Allocation Committee (TCAC) is responsible for allocating the both the federal and State tax credits. Currently, each state receives an annual allocation of $1.75 per capita in federal tax credits, an amount that will increase annually as indexed to inflation.

**Tax-Exempt Private Activity Bonds**

The Internal Revenue Code annually allots to each state an amount of debt for private activities that may be issued at tax-exempt rates. Affordable housing development is one of the qualifying private activities. The allotment for California is administered by the California Debt Limit Allocation Committee (see above under State Programs).

**Affordable Housing Program**

The Federal Home Loan Bank (FHLB) requires its member banks to participate in its Affordable Housing Program (AHP), under which those banks make forgivable loans to affordable housing developments, both rental and for-sale. In San Jose, developers have tapped into this funding source for all varieties of rental housing (family, senior, SRO, special needs). Each regional FLHB sponsors two competitive funding rounds annually, with member banks sponsoring individual development proposals. Although low-income units are theoretically eligible for funding, the competitive nature of process virtually dictates that only ELI and perhaps some VLI units will receive awards, which range between $5,000 and $12,000 per unit.
THE NEXT FIVE YEARS

The City’s affordable housing program is a significant contributor to overall housing production in San José. Over the past six years, more than 50% of all new rental housing developments built in San Jose has been affordable to lower-income households financed by the City.

Continuing this high level of production will be challenging. Land prices and construction and labor costs have significantly increased in recent years. These increased costs of development have pushed the average cost of building an apartment unit to more than $300,000. This high overall development cost has resulted in the need for a larger City subsidy; the City’s subsidy to ensure an affordable rent often now exceeds $90,000.

The success of the City’s affordable housing program is dependent on two important factors: the City’s ability to borrow funds to provide gap loans to developers, and the availability of outside resources to leverage City funding.

THE CITY’S financial RESOURCES

As required by the State of California, 20% of all tax increment collected in Redevelopment Project Areas must be set aside for the production of low- and moderate-income housing (known as the Low and Moderate Income Housing Fund). Over the years, the City has received considerable funding for its affordable housing programs from the Low and Moderate Income Housing Fund.
The City borrows against this tax increment in order to finance affordable housing projects and programs. Borrowing allows the City to increase the amount of funding available to finance housing now—at a rate as high as $10 for each dollar of increment. So, if there is $30 million in tax increment available, that amount can be increased to $300 million by borrowing and pledging future increment in repayments.

In addition to the Low and Moderate Income Housing Funds, the City uses a variety of local, State, and federal resources to finance its affordable housing program. These funds are described in detail in the Chapter entitled FUNDING SOURCES.

OUTSIDE INVESTMENT IN affordable HOUSING

City funding alone is not enough. Typically, the City’s gap loans represent between 25% to 33% of the overall cost of development; the remaining amount must be accessed from other sources. Major sources of outside funding include: private bank financing, Low-Income Housing Tax Credits (LIHTC), the State’s Multi-family Housing Program (MHP), and a combination of tax-exempt, private-activity bonds and 4% tax credits.

The 9% LIHTC and MHP Programs enable developments to achieve rents that are affordable to extremely low-income households. However, due to extreme competition, the City only expects a few projects each year to obtain these funds. As a result, in order to meet the City’s production goals mentioned later in this Chapter and to reach ELI households, higher amounts of City subsidy will be needed.
To fund the City's housing production program, the following resources will be required.

**Local, State, and Federal Funds**

Over $190 million of Tax Increment is projected to be available over the next five years.

**Table A: Projected Sources of Local, State, and Federal Funds for Affordable Housing**

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Actual 2007-08</th>
<th>Projected 2008-09</th>
<th>Projected 2009-10</th>
<th>Projected 2010-11</th>
<th>Projected 2011-12</th>
<th>Five-Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Tax Increment*</td>
<td>$36,988,410</td>
<td>$39,472,939</td>
<td>$41,051,856</td>
<td>$41,051,856</td>
<td>$41,051,856</td>
<td>$199,616,917</td>
</tr>
<tr>
<td>Supplemental Redevelopment Funding</td>
<td>$250,000</td>
<td>$375,000</td>
<td>$300,000</td>
<td>$0</td>
<td>$0</td>
<td>$925,000</td>
</tr>
<tr>
<td>Interest/Repayments/Miscellaneous</td>
<td>$11,457,627</td>
<td>$18,690,000</td>
<td>$16,800,000</td>
<td>$18,800,000</td>
<td>$20,800,000</td>
<td>$86,547,627</td>
</tr>
<tr>
<td>Teacher Homebuyer Repayments</td>
<td>$240,000</td>
<td>$540,000</td>
<td>$740,000</td>
<td>$740,000</td>
<td>$740,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>In-Lieu Fee Revenue</td>
<td>$8,594,655</td>
<td>$0</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$5,000,000</td>
<td>$17,594,655</td>
</tr>
<tr>
<td>Federal Programs</td>
<td>$19,255,278</td>
<td>$24,266,028</td>
<td>$25,094,053</td>
<td>$19,225,770</td>
<td>$19,225,770</td>
<td>$107,066,899</td>
</tr>
<tr>
<td>State Programs</td>
<td>$3,283,113</td>
<td>$800,000</td>
<td>$13,891,885</td>
<td>$0</td>
<td>$0</td>
<td>$17,974,998</td>
</tr>
<tr>
<td>Line of Credit Draws</td>
<td>$0</td>
<td>$50,000,000</td>
<td>$0</td>
<td>$50,000,000</td>
<td>$0</td>
<td>$100,000,000</td>
</tr>
<tr>
<td>Net Bond Sale Proceeds</td>
<td>$13,854,200</td>
<td>$0</td>
<td>$85,000,000</td>
<td>$0</td>
<td>$52,000,000</td>
<td>$150,854,200</td>
</tr>
<tr>
<td>Total Sources of Funds</td>
<td>$93,923,283</td>
<td>$134,143,967</td>
<td>$184,877,794</td>
<td>$131,817,626</td>
<td>$138,817,626</td>
<td>$683,580,296</td>
</tr>
</tbody>
</table>
Uses of Available Funds

The majority of the funding available over this five-year period will be used for the new construction and acquisition/rehabilitation of rental housing affordable to ELI, VLI, and LI households under the Project Development Program. Other funds will be allocated to programs that provide loans and grants to rehabilitate single-family homes, loans to first-time homebuyers, and assistance to homeless service and shelter providers. Additional funding will be used for the ongoing monitoring and loan management of the Department’s portfolio to ensure that units remain affordable and that housing developments are well-maintained and continue to be financially viable. (See table B for detail)

<table>
<thead>
<tr>
<th>Loans and Grants</th>
<th>2007-08</th>
<th>Projected 2008-09</th>
<th>Projected 2009-10</th>
<th>Projected 2010-11</th>
<th>Projected 2011-12</th>
<th>Five-Year Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Development</td>
<td>$45,991,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$245,991,000</td>
</tr>
<tr>
<td>Housing Rehabilitation</td>
<td>$7,438,972</td>
<td>$6,308,698</td>
<td>$4,940,002</td>
<td>$4,940,003</td>
<td>$4,940,004</td>
<td>$28,567,679</td>
</tr>
<tr>
<td>Homebuyer Programs</td>
<td>$12,879,268</td>
<td>$15,080,000</td>
<td>$12,000,001</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
<td>$46,959,269</td>
</tr>
<tr>
<td>Homeless Programs</td>
<td>$3,235,200</td>
<td>$3,388,756</td>
<td>$2,100,000</td>
<td>$2,100,000</td>
<td>$2,100,000</td>
<td>$12,923,956</td>
</tr>
<tr>
<td>Other Programs</td>
<td>$2,845,309</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$2,845,309</td>
</tr>
<tr>
<td>Loan Management</td>
<td>$500,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$1,300,000</td>
</tr>
<tr>
<td>Administration</td>
<td>$13,832,256</td>
<td>$13,300,000</td>
<td>$13,300,000</td>
<td>$13,500,000</td>
<td>$13,700,000</td>
<td>$67,632,256</td>
</tr>
<tr>
<td>Debt Service / Borrowing Costs</td>
<td>$19,950,000</td>
<td>$19,000,000</td>
<td>$29,000,000</td>
<td>$29,000,000</td>
<td>$29,000,000</td>
<td>$125,950,000</td>
</tr>
<tr>
<td>Total Uses of Funds</td>
<td>$106,672,005</td>
<td>$107,277,454</td>
<td>$111,540,003</td>
<td>$103,240,003</td>
<td>$103,440,004</td>
<td>$532,169,469</td>
</tr>
</tbody>
</table>
FIVE-YEAR HOUSING production GOALS

According to a recent report published by Bay Area Local Initiatives Support Corporation (LISC) and The Institute for Metropolitan Studies, there is a need to provide more than 90,000 affordable housing units over the next twenty years. The Association of Bay Area Governments has indicated that San José needs to plan for the development of over 19,000 affordable housing units over a seven-year period—more than 2,500 affordable units each year.

The City recognizes the tremendous need for affordable housing and is committed to its aggressive program to increase the affordable housing stock. However, based on the City’s anticipated funding and the availability of leveraged funds, reaching the numbers identified in these reports will be quite difficult.

As illustrated in Table C, over the next five years the Housing Department is projected to finance over 1,900 affordable housing units.

<table>
<thead>
<tr>
<th>Project Development Program</th>
<th>Average Subsidy</th>
<th>Actual 2007-08</th>
<th>Projected 2008-09</th>
<th>Projected 2009-10</th>
<th>Projected 2010-11</th>
<th>Projected 2011-12</th>
<th>Five-Year Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental Housing Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual New Construction</td>
<td>$95,855</td>
<td>$117,251</td>
<td>$132,319</td>
<td>$135,000</td>
<td>$140,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidy Rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Construction</td>
<td>$100,000</td>
<td>247</td>
<td>144</td>
<td>200</td>
<td>250</td>
<td>350</td>
<td>1,191</td>
</tr>
<tr>
<td>Acquisition/Rehabilitation</td>
<td>$70,000</td>
<td>309</td>
<td>36</td>
<td>76</td>
<td>0</td>
<td>0</td>
<td>421</td>
</tr>
<tr>
<td>Subtotal</td>
<td>556</td>
<td>180</td>
<td>276</td>
<td>250</td>
<td>350</td>
<td></td>
<td>1,612</td>
</tr>
<tr>
<td>Inclusionary Housing Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental Units</td>
<td>$0</td>
<td>133</td>
<td>31</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>164</td>
</tr>
<tr>
<td>For-Sale Units</td>
<td>$0</td>
<td>40</td>
<td>116</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>156</td>
</tr>
<tr>
<td>Subtotal</td>
<td>173</td>
<td>147</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>320</td>
</tr>
<tr>
<td>Homeownership Units</td>
<td>$65,000</td>
<td>8</td>
<td>27</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>35</td>
</tr>
<tr>
<td>Total Production Unit Goals</td>
<td></td>
<td>737</td>
<td>354</td>
<td>276</td>
<td>250</td>
<td>350</td>
<td>1,967</td>
</tr>
</tbody>
</table>
In addition to financing new rental housing developments, the rehabilitation of existing housing units is a major focus of the City’s housing programs. The City has a variety of rehabilitation programs that provide loans and grants to ensure that homes occupied by lower-income households are safe. Table D outlines the production goals of the Housing Rehabilitation Program.

Table D: Housing Rehabilitation Program Production Goals

<table>
<thead>
<tr>
<th>Housing Rehabilitation Program</th>
<th>Average Subsidy</th>
<th>Actual 2007-08</th>
<th>Projection 2008-09</th>
<th>Projection 2009-10</th>
<th>Projection 2010-11</th>
<th>Projection 2011-12</th>
<th>Five-Year Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family Grants and Loans</td>
<td>$21,853</td>
<td>96</td>
<td>105</td>
<td>125</td>
<td>150</td>
<td>150</td>
<td>626</td>
</tr>
<tr>
<td>Mobilehome Grants/Loans</td>
<td>$12,000</td>
<td>195</td>
<td>139</td>
<td>130</td>
<td>130</td>
<td>130</td>
<td>724</td>
</tr>
<tr>
<td>Paint Grants</td>
<td>$5,000</td>
<td>0</td>
<td>0</td>
<td>50</td>
<td>90</td>
<td>90</td>
<td>230</td>
</tr>
<tr>
<td>Minor Repair Program</td>
<td>$1,077</td>
<td>79</td>
<td>180</td>
<td>200</td>
<td>200</td>
<td>0</td>
<td>659</td>
</tr>
<tr>
<td>Project Alliance</td>
<td>$12,500</td>
<td>16</td>
<td>30</td>
<td>52</td>
<td>0</td>
<td>0</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total Rehabilitation Program Unit Goals</strong></td>
<td><strong>386</strong></td>
<td><strong>454</strong></td>
<td><strong>557</strong></td>
<td><strong>570</strong></td>
<td><strong>370</strong></td>
<td><strong>2,337</strong></td>
<td></td>
</tr>
</tbody>
</table>

Combined, over the next five years, the Project Development and Rehabilitation Programs plan to finance 4,304 affordable housing units. The 4,304 units include: 1,191 new construction units, 421 acquisition/rehabilitation units, 626 single family rehabilitation grants/loans, and 724 mobilehome rehabilitation grants/loans. The total number of affordable units does not include the 230 paint grants, 659 minor repair program grants, 98 Project Alliance units, or an anticipated 1,350 inclusionary units. In total, the City expects to finance or otherwise assist over 5,000 affordable units over the next five years.
**IMPLEMENTING ACTIONS**

In addition to the ongoing policy and production efforts of the City, the following actions are needed to implement the City’s vision for affordable housing over the next five years.

**PRODUCTION policies**

1. **Zoning for Housing:** The City is embarking on a major update of its General Plan. As this significant work effort takes place over the next two years, the City will explore ways to expedite housing development. Currently, the City Council designates land for residential use under the General Plan for purposes of the City’s Housing Element. The current practice is that these sites are then rezoned by individual developers.

   **Action:** Budget adequate resources to zone land for housing to prepare it for more rapid development, starting in the North San José Redevelopment Area where up to 8,000 new units of housing are anticipated.

   **Action:** Consider a density bonus ordinance as required by State law. The ordinance will supplement the density bonus policy currently found in the General Plan.

   **Action:** As part of the Housing Element, evaluate all sites planned for housing to determine appropriate densities.

   **Action:** Provide developers with information about sites where the City would like to see housing built.

   **Action:** Consider allowing “development by-right,” whereby development can occur if it is consistent with the zoning.
**Action:** In conjunction with these changes, strengthen outreach to neighborhoods.

2. **Homeownership:** The City has a number of programs that seek to increase homeownership opportunities, including the City’s successful Teacher Homebuyer Program, which provides second mortgage assistance to K-12 classroom teachers in San José schools.

   **Action:** Review the City’s comprehensive strategy for homeownership to determine whether the first-time homebuyer programs should be modified so as to increase the number of participants.

   **Action:** Evaluate the potential for a pilot program that serves community college faculty, modeled after the San José State Faculty Homebuyer Program.

3. **Predatory Lending:** In 2003, the City established the “Don’t Borrow Trouble Campaign.” This education and outreach campaign has brought together several disparate organizations with differing constituencies, such as Project Sentinel, the California Association of Mortgage Brokers, and the Santa Clara County Association of Realtors. In the current market, where many subprime borrowers are facing foreclosure, education campaigns are critical to ensure that borrowers obtain good loans and stay in their housing.

   **Action:** Work with Neighborhood Housing Services Silicon Valley and other partners to increase outreach efforts to borrowers with subprime loans and direct them to services that help them remain housed. Continue to participate and facilitate the Don’t Borrow Trouble Silicon Valley (DBTSV) Program in San Jose.

   **Action:** Advocate for the protection of borrowers from adverse or inappropriate sub-prime lending practices through State and federal legislation.

   **Action:** Monitor, investigate, and make recommendations on State and federal legislation related to predatory lending.
4. **Permanent Funding Sources:** The need for affordable housing exceeds the current resources available. While the State of California has passed two statewide housing bonds over the last five years, which has been an important source of funding for affordable housing, this is an uncertain and tenuous source of monies that can’t be guaranteed in the future. On the other hand, over the last four years, the federal government has reduced San José’s funding by 15% for housing and community development related projects. As a result, the City needs to identify additional funding sources to fill its resource gap. The need for affordable housing, and the funding gap, is outlined in the report *Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis*.

**Action:** Protect the Low and Moderate Income Housing Fund (“20% Fund”).

**Action:** Support efforts developed by the Blue Ribbon Commission on Ending Chronic Homelessness in Ten Years and Solving the Affordable Housing Crisis in Twenty Years to increase funding available at the local level.

**Action:** At the federal level, protect existing funding sources for housing and community development efforts. Advocate for full funding of the HOME Investment Partnership, HOPWA, Emergency Shelter Grant Program, and other entitlement programs. Oppose attempts to reduce and dilute the Community Development Block Grant Program. Support increased funding for Section 202 and Section 811 Programs, which have seen drastic reductions in the past ten years.

**Action:** Support new federal housing efforts, particularly those that seek to increase the federal role in provision of construction financing for units affordable to lower-income households. Continue to push for the passage of the National Affordable Housing Program.

**Action:** Support efforts at the State level to identify ongoing funding sources for affordable housing. Although recent bond measures have provided funding for affordable housing efforts, this funding is one-time in nature, and an ongoing funding source still needs to be identified.

**Action:** Investigate potential local funding sources that can supplement the City’s 20% Tax Increment and that can provide continued funding when redevelopment funding is no longer available.
Action: In October 2005, the City of San José and City/County of San Francisco received notice from the U.S. Department of Housing and Urban Development (HUD) that it was no longer considered a “Difficult Development Area” even though both cities are two of the highest cost areas in the nation. The loss of DDA designation negatively impacts future development of affordable housing in the Bay Area by restricting the amount of tax credit equity available to affordable projects in our cities. The City of San José encourages HUD to either develop an alternative plan to calculate DDA that is based on average land, construction, and utility costs relative to the incomes of low income families, or to seek a grandfathering of San José and San Francisco into the Difficult Development Area formula.

5. Preserving Existing Affordable Housing: It is important to build new housing units to meet the need, but equally important to save the affordable housing stock that the City already has.

Action: Increase awareness and availability of HUD programs such as Mark Up to Market and enhanced Section 8 vouchers.

Action: Advocate for continued or increased funding of the Section 8 voucher Program.

Action: Support legislation that promotes the preservation of existing affordable housing. Currently, Congress renews funding for the Section 8 program on a year-to-year basis. Support efforts to provide longer-term renewals to encourage owners to maintain their units as affordable.

Action: Update the City’s list of units at risk of conversion from affordable to market rate to include units that have not been counted in the past, including State-funded units, and those that were assisted in the early years of the Redevelopment Agency/Housing Department affordable housing programs.

6. Secondary Residential Units: In 2006, the City created a pilot program to allow the developers of new secondary units, and to legalize existing units, if they complied with certain criteria. Since the beginning of the pilot program, 10 secondary units have been built with an additional 47 still in the application process. It is estimated that there are several thousand illegal units in San José, many of which raise health and safety concerns. Nevertheless, it is recognized that secondary units provide an affordable housing option for many of San José’s lower-income households.
Action: Seek alternative options to respond to illegal secondary units.

7. **Dispersion Policy**: As stated in the Cities Policy Section of this Plan, the City’s Dispersion Policy is a positive statement that encourages affordable housing development throughout the City.

Action: Research the issue of social integration to determine whether there is a benefit to mixed-income projects compared with standalone affordable housing developments dispersed among market-rate projects.

8. **Single Family Rehabilitation Program**: The City’s rehabilitation programs ensure that residents live in decent, safe, and sanitary housing. The City defines rehabilitation on a single family home as “substantial” if it exceeds 25% of the city-wide median sales price of a home. Currently there is no limit to the value of the home that can apply for the program, as long as the owners are low-income.

Action: In response to the escalating housing prices, and resulting increases in equity, consider the adoption of a policy to place a cap on the maximum home value assisted by the City’s rehabilitation programs in order to use the Department’s limited resources more effectively.

9. **Fair Housing**: The Fair Housing Act of 1968 was adopted to safeguard against illegal housing discrimination. The Law protects a person’s right to own, sell, purchase, or rent housing of his or her choice without fear of unlawful discrimination. In 2003, the City adopted its Analysis of Impediments to Fair Housing and hired a Fair Housing Coordinator to monitor, re-evaluate, and update the Analysis on a continuing basis.

Action: Continue to lead and participate in the education and outreach campaigns including the City’s Fair Housing Workshops. Continue to develop working relationships with the City/County fair housing service providers.

10. **Parkland Dedication Ordinance and Impact Fees**: City-financed affordable housing development for low- and very low-income households is exempt from paying fees for the Parkland Dedication Ordinance.
**Action:** Work to ensure that the City accesses funding for parks associated with affordable housing developments under Proposition 1C. Explore other funding sources to provide recreational opportunities for affordable housing residents.

11. **Mobilehome Parks:** In 1985, the City Council adopted a rent control ordinance specifically for mobilehomes. The ordinance allows park owners to increase rent for mobilehomes on an annual basis to the Maximum Annual Percentage Increase, which is set based on the Consumer Price Index and is limited to a minimum 3% and a maximum of 7% per year.

- **Action:** Continue to ensure that rent control for the City’s Mobilehome parks continues and that means of advertising or changing ownership of these properties does not erode the rights of residents.
- **Action:** Implement a pilot mobilehome park infrastructure program to address concerns about failing systems in older parks.
- **Action:** Investigate the extent of mobilehome park infrastructure problems, ways other cities have responded, and options to consider for funding repairs

**SERVING THOSE IN need**

1. **Tenant Protections:** San José has a large rental community made up of working families who struggle to pay their bills, take care of their children, and plan for their future. Due to the tight rental market in the past few years, issues related to tenant protections and evictions have been debated vigorously by the community.
**Action:** Ensure that the City’s rent control ordinance remains in effect and the State legislation does not further erode these efforts.

**Action:** Continue efforts to promote renters’ insurance to inform the City’s renters of the important of having renters’ insurance in the event of a disaster.

**Action:** Continue to provide education and outreach services to tenants and landlords covered by the Rent Control ordinance.

**Action:** Proactively monitor the conversion of large rental projects to for-sale ownership. Consider a policy to require increased noticing requirements for certain types of project conversions as well as “right of first refusal” provisions.

**Action:** Support legislative efforts to require owners of condominium-mapped apartment projects to provide tenant notification similar to tentative mapped projects before conversion of large rental projects convert to ownership.

2. **Ending Chronic Homelessness:** Homelessness is a multifaceted problem that requires the cooperation and coordination of multiple cities, counties, nonprofit homeless service providers, and other agencies. The City of San José works with its partners to offer a comprehensive array of homeless services ranging from homeless prevention activities to a system of homeless shelters and transitional and permanent housing. As laid out in its 10-Year Plan to End Homelessness, the City will be shifting its efforts away from emergency services to providing its homeless residents with permanent housing combined with wrap-around services.

**Action:** The City will provide leadership and staff support to the BRC to implement the following initiatives to help end chronic homelessness in Santa Clara County: create an outreach and benefits team to improve access to homeless services; develop a
discharge plan to prevent persons being released from hospitals, the criminal justice system, or foster care from becoming homeless; establish a “One-Stop” Homelessness Prevention Center; and provide affordable permanent housing with services.

**Action:** Implement strategies from the City’s adopted 10-Year Homeless Strategy to end chronic homelessness.

**Action:** Continue to work with Housing Choices Coalition, the Silicon Valley Independent Living Center, and other agencies to meet the needs of people with disabilities in finding and maintaining affordable housing.

**Action:** Continue to collaborate with for-profit and nonprofit housing developers to finance permanent housing affordable to ELI households.

**Action:** Implement the PROGRESS (Promoting Growth and Early Self-Sufficiency) program. Through this program which offers rental subsidies for two years, the City will assist homeless families and individuals to obtain permanent housing and regain self-sufficiency.

**Action:** Continue to work with the Housing Authority to set aside Section 8 Housing Choice Vouchers for the chronically homeless.

**Action:** Investigate the potential for creating a one-stop center for homeless services, similar to the “Mall Concept” that has been implemented in cities across the country.

**Action:** Explore opportunities to increase Project Homeless Connect days and to hold special Project Connects for youth and other special needs groups. Develop methods to determine the success of these events in moving people off of the streets and into permanent housing.

**Action:** Work with the Water District and other City departments to address concerns about homeless encampments.

**Action:** In conjunction with the Work2Future Program, explore new programs that provide jobs for the homeless, including jobs for recent parolees, single mothers with children, and emancipated youth. Investigate the possibility of a partnership with local union organizations to provide job training opportunities for emancipated youth.
PROACTIVE legislative EFFORTS

1. **CEQA:** The basic goal of the California Environmental Quality Act (CEQA) is to develop and maintain a high-quality environment now and in the future. The specific goals of CEQA are for California’s public agencies to: identify the significant environmental effects of their actions; and, where feasible, either avoid or mitigate those significant environmental effects from development.

   **Action:** Support legislation at the State level that streamlines the CEQA process, particularly for infill affordable housing and other smart growth projects.

2. **Proposition 1C - Infill Housing Funds:** In November 2006, the voters passed Proposition 1C, the largest State bond in the Country dedicated to affordable housing. In order to ensure that San José is competitive for these funds, the City has adopted key principles.

   **Action:** Lobby for implementing legislation that meets the guiding principles adopted by the City Council.

   **Action:** Aggressively apply for funding under Proposition 1C to support San José’s affordable housing efforts.

   **Action:** Prepare for the release of infrastructure funding under Proposition 1C by identifying projects early on that would be competitive for funding.

   **Action:** Develop creative program concepts that can qualify for innovations funding under Proposition 1C, and that can be replicated by other jurisdictions.

3. **Federal Entitlement Funding:** The City of San José receives about $15 million annually for several grant programs through a federal funding formula. These programs include: the Community Development
Block Grant program; the Emergency Shelter Grant Program; Housing Opportunities for People with AIDS; and, the
HOME Investment Partnership Program. Over the last six years, the City has seen a 16% reduction in funding from
these sources while the cost of providing services and building affordable housing has continued to climb.

**Action:** Oppose reductions to federal entitlement programs.

**Action:** Advocate for changes to the federal law formula allocations to ensure that San José receives funding
commensurate with its size and community needs.

4. **Federal Section 8 Housing Choice Vouchers:** Section 8 vouchers provide
the most affordable housing option with the majority of voucher holders falling
in the lower Extremely Low-Income Category.

**Action:** Lobby for an increase in the number of vouchers for the City of San
José’s Housing Authority.

**Action:** Support the Moving to Work concept to provide the Housing Authority
of the County of Santa Clara, which staffs the San José Housing Authority on
behalf of the City, more flexibility in the administration of the program,
resulting in increased benefits for San José residents.

5. **Redevelopment Law:** Redevelopment Law requires that a minimum of 20% of tax increment financing collected in
Redevelopment Project Areas be set aside for the development of affordable housing.

**Action:** Ensure that 20% Funds are protected at the State and local level.

**Action:** Support efforts to continue the affordable housing set aside beyond the life of Redevelopment Project Areas.