



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Joe Horwedel

**SUBJECT: COYOTE VALLEY SPECIFIC
PLAN DRAFT AFFORDABLE
HOUSING PROGRAM**

DATE: June 14, 2006

Approved

Date

COUNCIL DISTRICT: 2
SNI: N/A

EXECUTIVE SUMMARY

On June 23, 2006, the City Council is scheduled to conduct a study session regarding the Coyote Valley Specific Plan Affordable Housing Program. The purpose of the study session is to engage the Council in a discussion about the goals and strategies for producing affordable housing in Coyote Valley (see Exhibit 1 for the agenda). As with prior study sessions, the Council is not being asked to take action.

BACKGROUND

In August 2002, the City Council initiated the Coyote Valley Specific Plan (CVSP) process and approved its Vision and Expected Outcomes for the Specific Plan that included a requirement for a minimum of 25,000 housing units at build out, 20% of which must be affordable (see Exhibit 2). The affordability requirement results in at least 5,000 housing units.

In April 2005, the Co-Chairs of the Task Force issued a memorandum "Draft Timing and Logistical Requirements" recommending income-targeting goals and a prohibition from City or Redevelopment Agency subsidy for all levels of affordable housing in CVSP. Subsequently, the Task Force revised this prohibition to exclude affordable units that serve extremely low- and very low-income households, and directed staff to convene a Focus Group with developers and the affordable housing development and advocacy groups to fully explore policy and financing issues related to affordable housing in the CVSP.

In August 2005, the CVSP Housing Focus Group was formed and several meetings were held with Housing and Planning staff where the Focus Group provided input on an affordable housing strategy for CVSP.

On March 7, 2006, Housing and Planning staff presented to the Task Force a draft CVSP Affordable Housing Strategy, which included input from the Focus Group and the City's Housing Advisory Commission (HAC). The Strategy included policy issues, implementation options and staff recommendations. The Task Force accepted the progress report, and directed

staff to convene additional meetings with the Focus Group and HAC to develop a specific program for the CVSP.

On May 22, 2006, as a result of meetings with the Focus Group and HAC, Housing staff and members of the Focus Group presented an updated Draft Affordable Housing Program to the Task Force. The Draft Affordable Housing Program was accepted by the Task Force on May 22, 2006 and is summarized below.

AFFORDABLE HOUSING PROGRAM

In order to realize the City Council's Vision and Expected Outcomes for affordable housing in the CVSP, a program needs to be in place to ensure the timely provision and implementation of affordable units over the long term development of the CVSP. Following is the vision for affordable housing in the CVSP:

- 1) To create a healthy and memorable community where residents of all incomes, races and ethnicities, education and occupation have reasonable access to affordable housing that is phased over time and distributed throughout the community with good access to transit, schools, parks, trails, open spaces, and other community amenities; and
- 2) Facilitate the development of an affordable housing stock where differences in unit size, tenure, and income eligibility would contribute to community diversity, and provide a building block for a stronger, healthier, and more dynamic and interesting Coyote Valley community, so that each individual and the community at large can realize their full potential for maximum productivity and livability.

The proposed Affordable Housing Program for the CVSP is intended to accomplish the Council's Vision and Expected Outcomes, and addresses issues that emerged from various Task Force and stakeholder discussions. In summary, the Program incorporates the following objectives: (1) Clear goals for the production of affordable rental and ownership units at specific affordability levels, (2) Specific methods for developers to meet their affordability requirements, either through dedicating land to a "Land Bank" and paying in-lieu fees (which will be administered by an entity, such as the City), or through an "inclusionary" requirement, where affordable units are incorporated directly into market rate developments, and (3) An implementation strategy for the provision of affordable units, which will address phasing, design and location standards, availability of City of San Jose affordable housing subsidies, and a method for establishing the contributions from developers. Following are important details of the Affordable Housing Program:

A. Affordability Goals

The CVSP shall have affordability goals for Moderate-Income (MOD), Low-Income (LI), Very Low-Income (VLI), and Extremely Low-Income (ELI) units consistent with the City's affordable housing production goals as follows:

Table 1

Affordability Level	Rental Goals 80%	Ownership Goals 20%	TOTAL
ELI	1,500		1,500
VLI	1,400	100	1,500
LI	1,100	250	1,350
MOD		650	650
Totals	4,000	1,000	5,000

The affordability goals are targets that serve as the benchmark for success toward achieving the economic integration envisioned for a healthy community. ELI targets may be especially difficult to achieve due to a greater subsidy requirement and the availability of adequate subsidy, though are especially important to ensure availability of affordable housing for all income levels.

B. Meeting the Affordable Housing Requirement in the CVSP

The overall goal of providing a minimum of 5,000 units of affordable housing in Coyote Valley will be met as follows:

1. Land Bank and In-lieu Fee Contribution: All 2,900 VLI and ELI rental units and 600 LI rental units shall be provided for through the creation of a "Land Bank" of 88 acres of dedicated land suitable for rental development (see Table 2). In addition, five to seven acres of land shall be dedicated for the creation of 100 units of for-sale housing affordable to very-low income households, preferably by nonprofit developers through "self-help", "sweat equity" or other similar programs. Sites dedicated will be placed into a Land Bank that will be administered by the City, with land made available to affordable housing developers. The sites that are dedicated will be consistent with affordable housing design principles and location criteria determined through the CVSP planning process and implemented by phase. The land will be subject to the proportionate share of assessments and fees resulting from the CVSP process.

In addition, developers of market rate developments will be required to pay in-lieu fees totaling approximately \$70 million, which in combination with the dedication of land, is estimated to provide sufficient subsidy to fund 3,500 affordable rental units targeted to low and very low income households. Fees will take into account present value, i.e. the amount of contributions will be indexed over time. Fees will be established to reflect variations in density, type and cost of market rate housing, and will be scaled to ensure that no economic disincentive is created for the construction of market rental units. Contributions will be "front-loaded" to allow for early development of fully affordable projects. Fees will be required to be paid with issuance of the final map.

2. Inclusionary: 900 LI and MOD ownership units (see Table 2) will be met by directly incorporating the units into market rate developments (referred to as "inclusionary units"). In addition, 500 LI rental units will be inclusionary. The specific percentage inclusionary requirement for any individual market rate project will be established by the City based on

the expected number and type (i.e. rental v. ownership) of market rate units at the beginning of each phase. [Generally, it is presently estimated that 21,400 of units in Coyote Valley will be subject to the inclusionary requirement, of which 16,050, or 75%, is estimated to be for-sale. To realize the aforementioned 900 inclusionary for-sale units for LI and MOD, the requirement for each project would be approximately 6% (900/16,050). Similarly, it is estimated that 5,350 units will be rental housing, of which 500 would be inclusionary rental units. The inclusionary requirement for each rental project, then, would be approximately 9% (500/5,350).] Within each phase, developers may combine or “trade” their inclusionary obligations. To achieve the City’s goal of promoting economic integration through the inclusionary requirement, however, no individual market rate project should have greater than 25% of its units as affordable.

In summary, the 5,000 affordable units in Coyote Valley will be provided as follows:

Table 2

Affordability Level	Rental Goals 80%	Ownership Goals 20%	TOTAL
ELI	1,500 (dedication)	n/a	1,500
VLI	1,400 (dedication)	100 (dedication)	1,500
LI	600 (dedication); 500 (inclusionary)	250 (inclusionary)	1,350
MOD	n/a	650 (inclusionary)	650
Totals	3,500 (dedication); 500 (inclusionary)	900 (inclusionary); 100 (dedication)	5,000

C. Implementation

1. Phasing of Affordable Units

The CVSP shall have an Affordable Housing Phasing Plan that coincides with the phasing of the development of the CVSP. The plan shall provide measures to evaluate progress at each phase of development of the CVSP to ensure that the affordable rental and ownership housing goals are being achieved, on a cumulative basis, and to assess progress toward achieving income target goals. The plan shall provide for flexibility in making modifications over time to adapt to changes in funding programs, economic conditions and legislation.

2. Design and Location Standards

Land to be contributed to the Land Bank will be pre-identified through the CVSP planning process and incorporated into the CVSP Land Use Plan and Zoning Plan. Affordable housing units in the CVSP shall be designed as to be indistinguishable from market rate units and located in market rate developments or on sites comparable to market rate developments in accordance with the affordable housing design principles and location criteria established for the CVSP.

3. Availability of City of San Jose Affordable Housing Subsidies in the CVSP

- a) Funding for affordable housing in the CVSP shall only be available for deepening affordability (i.e., the difference between the cost of subsidizing a VLI unit and an ELI unit).
- b) City funds used for ELI units in the Coyote Valley shall be made available through a competitive process with other areas of the City and shall be limited to no more than 20% of City funding available for affordable housing subsidy City-wide.

4. Developer Requirements

Developers will be required to make a contribution of land, units and/or fees equal to an amount that is proportionate with their overall development. Each landowner's "fair share" of this requirement would be calculated and a credit/debit balance established. A valuation methodology would also be established for dedicated land to determine equivalency with payment of fees. These contributions would probably be established through the creation of a Community Facilities District or similar program.

CONCLUSION

Housing and Planning staff will continue to work with the Housing Focus Group and HAC to refine the Draft Affordable Housing Program and address comments raised by the Task Force and public. These comments include identifying options available for subsidizing ELI units, other than City subsidies; geographically integrating the dedicated land for affordable housing sites throughout the CVSP; adjusting the affordable housing unit goals and corresponding figures as needed to be consistent with current housing unit counts for the CVSP; evaluating the phasing implementation to assure timely production of units and addressing the needs for special needs populations. Staff will continue to provide periodic updates on the progress of the Affordable Housing Program to the Task Force.

PUBLIC OUTREACH

The Coyote Valley Task Force has held two public meetings on the CVSP affordable housing strategy. In addition, staff has been working with an Affordable Housing Focus Group and the Housing Advisory Commission on the development of this program. Information about the Task Force meetings and other background on the Coyote Valley Specific Plan can be found at www.sanjoseca.gov/coyotevalley.

The City Council Study Session on Friday, June 23, 2006 is another opportunity for public input.

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COORDINATION

The preparation of this memorandum has been coordinated with the City Attorney's Office.

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Attachments:

Exhibit 1: 6/23/06 Study Session Agenda

Exhibit 2: Council's Vision and Expected Outcomes Statement