



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Joseph Horwedel

SUBJECT: COYOTE VALLEY SPECIFIC
PLAN DRAFT AFFORDABLE
HOUSING PROGRAM

DATE: June 16, 2006

Approved

Date 6/18/06

COUNCIL DISTRICT: 2

SNI: N/A

EXECUTIVE SUMMARY

On June 23, 2006, the City Council is scheduled to conduct a study session regarding the proposed Coyote Valley Specific Plan Affordable Housing Program accepted by the CVSP Task Force on May 22, 2006. 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 a Vision and Expected Outcomes for the Specific Plan that included a requirement for a minimum of 25,000 housing units at build-out, 20%, or 5,000 units, of which must be affordable (see Exhibit 2).

In April 2005, the Co-Chairs of the Task Force issued a memorandum entitled "Draft Timing and Logistical Requirements," recommending income-targeting goals and prohibiting City or Redevelopment Agency subsidies 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 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 Department staff at which the Focus Group provided input on an affordable housing strategy for CVSP.

On March 7, 2006, Housing and Planning Department staff presented a draft CVSP Affordable Housing Strategy to the Task Force after receiving 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 the HAC to develop a specific program for the CVSP.

On May 22, 2006, following meetings with the Focus Group and the 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 established to ensure the timely provision and implementation of affordable units over the long-term development of the CVSP. The following vision for affordable housing in Coyote Valley will guide these efforts:

- 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) To 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 CVSP Affordable Housing Program is intended to accomplish the Council's Vision and Expected Outcomes, and addresses issues that emerged from various Task Force, Focus Group and subcommittee meetings, including the following: (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 or through an "inclusionary" requirement (as discussed in detail below); and (3) An implementation strategy for the provision of affordable units, which addresses phasing, design and location standards, availability of affordable housing subsidies, and a method for establishing the contributions from developers. Following are important details of the proposed Affordable Housing Program:

A. Affordability Goals

It is proposed that the CVSP will have affordability goals for Moderate-Income (MOD), Low-Income (LI), Very Low-Income (VLI), and Extremely Low-Income (ELI) units 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

B. Meeting the Affordable Housing Requirement in the CVSP

It is proposed that the 5,000 units¹ 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 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.

Table 2

Affordability Level	Land Bank Rental Goals	Land Bank Ownership Goals	TOTAL
ELI	1,500	n/a	1,500
VLI	1,400	100	1,500
LI	600	n/a	600
MOD	n/a	n/a	0
Totals	3,500	100	3,600

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

¹ The 5,000 unit goal is based on total unit production in Coyote Valley of 25,000 units. A larger number of total units would result in a proportional increase in affordable unit production requirements and contributions.

of contributions will be indexed over time). Additionally, 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 upon issuance of the final map.

2. Inclusionary: 900 LI and MOD ownership units (see Table 3) 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.² Within each phase, developers may combine or “trade” their inclusionary obligations. To help promote the City’s desire for economic integration, however, trading of the inclusionary requirement will not be permitted if it would result in any individual market rate project having greater than 25% of its units as affordable.

Table 3

Affordability Level	Inclusionary Rental Goals	Inclusionary Ownership Goals	TOTAL
ELI	n/a	n/a	0
VLI	n/a	n/a	0
LI	500	250	750
MOD	n/a	650	650
Totals	500	900	1,400

C. Implementation

Several additional issues related to the Affordable Housing Program implementation were discussed with stakeholders and are presented below:

1. Phasing of Affordable Units

It is proposed that the CVSP have an Affordable Housing Phasing Plan that ensures that affordable units are built concurrently with the construction of market rate units in the overall CVSP. This Plan shall include measures to evaluate progress at each phase 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. Additionally, the Plan shall provide for flexibility in making modifications over time to adapt to changes in funding programs, economic conditions, and legislation.

² 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).

2. Design and Location Standards

It is proposed that land to be contributed to the Land Bank 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 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

It is proposed that City of San Jose affordable housing subsidies not be available for funding of affordable units in Coyote Valley, except as follows:

- a) Funding for affordable housing in the CVSP is only to be available for deepening affordability of VLI rental units to ELI levels (i.e., the difference between the cost of subsidizing a VLI unit and an ELI unit).
- b) City funds used for ELI units in Coyote Valley would be subject to the City receiving future tax increment for affordable housing and would be made available through a competitive process with other areas of the City. No more than 20% of City funding available for affordable housing subsidy City-wide would be spent in Coyote Valley.

4. Developer Requirements

It is proposed that developers 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" would be calculated and a credit/debit balance established. Individual landowner contributions would probably be established through the creation of a Community Facilities District or similar program.

CONCLUSION

The Task Force and public provided valuable feedback to City staff in response to the proposed Affordable Housing Program. City staff was encouraged to continue to identify new options available for subsidizing ELI units in order to minimize the amount of City funds that would have to be used in Coyote Valley for that purpose. In addition, the importance of geographically integrating the dedicated land for affordable housing sites throughout the CVSP to provide equal access to amenities and services was reiterated. Likewise, staff was encouraged to continue to develop the phasing plan to ensure timely production of affordable units. Public comments also expressed support for addressing populations with special needs, including individuals with developmental disabilities.

Housing and Planning staff will continue to work with the Housing Focus Group and the HAC to address issues raised by the Task Force and public and to develop a more detailed implementation plan. Staff will continue to provide periodic updates on the progress of the Affordable Housing Program to the Task Force.

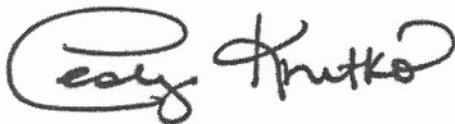
PUBLIC OUTREACH

The Coyote Valley Task Force has held two public meetings on the CVSP affordable housing strategy. The draft affordable housing strategy was also discussed by the CVSP Technical Advisory Committee Meeting on November 30, 2005. 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.

COORDINATION

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



LESLYE KRUTKO, DIRECTOR
Housing



JOSEPH HORWEDEL, ACTING DIRECTOR
Planning, Building and Code Enforcement

Attachments:

Exhibit 1: 6/23/06 Study Session Agenda

Exhibit 2: Council's Vision and Expected Outcomes Statement

CITY COUNCIL STUDY SESSION

on the

**COYOTE VALLEY SPECIFIC PLAN
DRAFT AFFORDABLE HOUSING STRATEGY**

City Hall Council Chambers

Friday, June 23, 2006

9:00 a.m. – Noon

AGENDA

- | | |
|--|-------------------|
| 1. Opening Remarks | 5 minutes |
| 2. Introduction | 10 minutes |
| 3. Overview of Proposed Affordable Housing Approach | 90 minutes |
| 4. Next Steps | 10 minutes |
| 5. Public Comments | |
| 6. Adjourn | |

EXHIBIT 2

City of San Jose

Coyote Valley Specific Plan

COUNCIL'S VISION AND EXPECTED OUTCOMES

1. The plan will include Central and North Coyote for land planning and will include South Coyote in the infrastructure financing mechanism only. South Coyote (Greenbelt) is included only to determine financing and other mechanisms to secure this as a permanent Greenbelt.
2. The line (Greenline) between Central and South shall not be moved.
3. The line between North and Central could be erased to allow for mixed-use throughout as long as 25,000 housing units in Central and 50,000 jobs in North remain as a base. Then, jobs can be added in Central Coyote and housing in North Coyote to achieve mixed-use or develop a property owner agreement to "trade" jobs and housing counts to achieve mixed-use goal.
4. The overall development character of North and Central Coyote Valley should be very urban, pedestrian and transit-oriented community with a mixture of housing densities, supportive businesses and services and campus industrial uses.
5. The Specific Plan should plan for the extension of light rail and heavy rail into Central Coyote and use these facilities to orient development.
6. We shall maximize efficient land usage; i.e., the 25,000 units and 50,000 jobs are both minimums. In North and Central Coyote combined, the total development potential is at least 50,000 jobs and at least 25,000 housing units. Through the Specific Plan process we shall determine the distribution of that potential across north and south, including mixed-use concepts.
7. It will be important to distinguish that the 50,000 jobs referenced are primarily industrial/office jobs, not the additional retail support or public/quasi-public jobs (e.g., City workers) that must also be accommodated in the Plan area for a vibrant, mixed-used, urban community.
8. Identify locations for public facilities (libraries, parks, schools, etc.) in the land use plan as well as include these facilities in the financing plan.
9. North and Mid-Coyote should contain a rich system of parks, trails, and recreation areas.

10. The identification of financing measures for the needed capital improvements to support the planned levels of development.
11. The plan must be financially feasible for private development.
12. The plan must develop trigger mechanisms to ensure that increments of housing may not move forward until the appropriate number of jobs are constructed in a parallel timeline to maintain a jobs/housing balance in Coyote Valley.
13. The Task Force should review the potential to utilize "sub-regions" of the valley that will incorporate jobs and housing that can move forward when the subregion has ability to finance the appropriate infrastructure. Residential projects will be issued building permits in parallel with the development of jobs when either the projects are purely mixed-use in their construction or the jobs and housing are constructed simultaneously.
14. The plan should seek mechanisms to facilitate the permanent acquisition of fee title or conservation easements in South Coyote.
15. The plan should allow for the current General Plan budget triggers to be changed to triggers based upon the Valley or its sub-regions jobs and housing revenues covering the General Fund cost of services.
16. 20% of all units shall be "deed-restricted," below-market-rate units."