



Memorandum

TO: DRIVING A STRONG ECONOMY
COMMITTEE

FROM: Leslye Krutko
Stephen M. Haase

SUBJECT: HOUSING PRODUCTION TEAM
REPORT UPDATE

DATE: November 21, 2005

Approved

Date

BACKGROUND

The City of San José is known as a Statewide housing leader, outperforming other cities in providing desperately needed housing as well as outpacing others in the production of affordable housing. In a recent study completed by the Bay Area Council, San José received an A+ in meeting its fair share of the regional housing needs allocation goals. The City's success is due to the Mayor and City Council's focus on providing housing opportunities for all City residents and the coordinated efforts of City Departments – including the Housing Department; Planning, Building and Code Enforcement; the Redevelopment Agency; Public Works Department; and the Department of Transportation.

In Fall 2000, the Mayor created a Housing Production Team (HPT) made up of community leaders, housing developers, housing advocates and environmental advocates. The purpose of the Team was to develop specific goals, recommendations, and actions to create more housing in San José. The HPT developed a report with 72 recommendations, which was adopted by the City Council in January 2001.

ACCOMPLISHMENTS

City staff immediately began implementation of the HPT recommendations, opening doors to new housing opportunities for San José residents. The following is a summary of the numerous milestones reached over the past four years:

Pursuit of Additional Funding for Affordable Housing

- Increased predevelopment funding
- Allocated over \$30 million in 80% funds for ELI units
- Received over \$32 million in Proposition 46 funds

Proactive Planning Initiatives

- Increased frequency of General Plan review
- Made progress on Coyote Valley Specific Plan
- Completed three phases of the Housing Opportunities Study
- Approved the Employment Lands Conversion Framework

- Proposed changes to Level of Service (LOS) policy and North San José Intensification
- Implemented new fee structures providing more options to developers
- Allowed master EIRs at General Plan stage
- Encouraged high-rise housing development
- Considered allowing secondary units

Streamlining Financing of Affordable Housing Projects

- Streamlined and documented the loan process
- Established new Notice of Funding Availability (NOFA) process
- Increased coordination between departments and created a Housing Action Team

Aggressively Acquired Land for Affordable Housing

- Acquired eight city-owned surplus sites
- Acquired two VTA and other publicly owned sites

Proactive Legislative Efforts

- Supported legislation to discourage construction defect litigation
- Worked with the State to streamline CEQA process

Increased Partnerships

- Increased coordination with Fannie Mae and Freddie Mac
- Partnered with Neighborhood Housing Services of Silicon Valley
- Worked with San José State to meet housing needs

SUMMARY

The City has completed 86% of the 72 recommendations made by the Housing Production Team (HPT) in 2001. The following chart summarizes these accomplishments:

Status of Recommendation	Number	Percentage
Complete	68	94%
In Progress	2	3%
Dropped	2	3%

Attached is a chart providing additional details regarding the status of each of the Housing Production Team's 72 recommendations. We will be available at the November 25, 2005 meeting to respond to any questions you may have.

LESLYE KRUTKO
Director of Housing

STEPHEN M. HAASE
Director of Planning, Building
and Code Enforcement

MAYOR'S HOUSING PRODUCTION TEAM (2001)

October 2005 Update

#	RECOMMENDATION	DEPARTMENT	STATUS
1	Increase Housing Department's predevelopment pool funding	Housing/ Budget	Complete. Additional funds were included in the FY 2001-02 Budget. In FY 2005-06, the revolving predevelopment fund has over \$200K available to award.
2	Explore other revenues for affordable housing	Housing/ Budget	<p>Complete. Two recent examples are the following:</p> <p>The City and its partners have aggressively pursued funds made available through Proposition 46. Since April 2003, the California Department of Housing and Community Development awarded the City of San José and local agencies nearly \$9 million. Additionally, two local nonprofit housing developers recently received San José's first allocation from the Multifamily Housing Program (MHP) for over \$23 million. These funds will be used to finance 253 new affordable housing units.</p> <p>In 2004, at the City's suggestion, the California Debt Limit Allocation Committee (CDLAC) adopted changes to its policies to allow tax allocation bonds (TABS) issued by redevelopment agencies to qualify for tax-exempt interest rates under CDLAC's private activity bond cap. In December 2004, CDLAC awarded a private activity bond allocation to San José for the issuance of \$75 million of TABS. With this allocation, the City was able to refinance previous taxable TABS with a new tax-exempt TABS, thereby increasing the Housing Department's bonding capacity for future affordable housing developments.</p>
3	Reduce Segregation of funds in Housing Department to allow different housing types on the same parcel	Housing	Complete. Housing Department funds may be used for different housing types on the same parcel.
4	Set aside 50% of RDA's new increment funds for affordable housing	Redevelopment Agency	Dropped. Due to recent shortfalls in tax increment revenues, increasing the Housing set aside from 20 to 50% is not a feasible option. The Redevelopment Agency (RDA) has continued to provide funding for affordable housing efforts over and above the 20% statutory requirement. Over FY 2005-06 and 2006-07, the RDA is committing 25% of its capital investment program to affordable housing.
5	Allocate more RDA funds toward housing	Redevelopment Agency	Complete. As noted above, the RDA has provided supplemental funding in addition to the 20% required by law. Between FY 99-00 and FY 03-04, the RDA provided \$61,609,000 million in additional funding to the Housing Department.

#	RECOMMENDATION	DEPARTMENT	STATUS
6	Increase GP Review of proposed housing to 2X a year or more	PBCE	Complete. Council took action to add a second GP Review in August of 2001. In fall 2001, the City Council increased the number of GP hearings per year to the maximum of four permitted by State Law.
7	Explore more units for Central Coyote Valley	PBCE	Complete. In August, the City Council adopted a General Plan amendment setting a minimum of 25,000 housing units in mid-Coyote. The specific plan for Coyote Valley is now in preparation.
8	Specific Plan for South Almaden	PBCE	Complete. The City Council declined to initiate a General Plan amendment in June 2001.
9	Specific Plan for Central Coyote	PBCE	Complete. In November 2001, the City Council approved a General Plan amendment that changed the purpose of the triggers facilitating the initiation of the CVSP process.
10	Make changes to speed up loan processing for affordable housing	Housing	<p>Complete. Two process improvements were implemented in 2001. First, the Housing Department and the City Attorney's Office began to prepare loan documents at the time the City Manager's Office agendas Council approval of a loan. The prior practice had been to delay document preparation until after City Council approval. Second, property acquisition funding for new development was wired directly to escrow at the title company rather than the time consuming process of requesting and preparing a paper check.</p> <p>In 2004, the City Council approved a new Notice of Funding Availability (NOFA) process in which explicit threshold and project-ranking criteria eliminate the need for time-consuming negotiations on loan terms (see also Item # 22 below).</p>
11	Enforce existing policy that 10% of all units in multi-family rental projects assisted by the City be offered to Section 8 voucher holders	Housing	Complete. The City's standard loan documents require a preference for Section 8 tenants in 10% of a project's units. As of October 2005, eight percent (8%) of all rental units (including family and senior apartments, and SRO units) are occupied by Section 8 voucher holders.
12	Complete boilerplate documents for affordable housing loans	Housing/ Attorney	Complete. The City Attorney's Office has developed a series of boilerplate documents tailored to the differing requirements of individual developers, tax-credit investors, and senior lenders. This series of boilerplate documents are for the acquisition/predevelopment, construction and permanent loans associated with each project, and have been in use for the past four years.
13	Reduce time from loan approval to receipt of check	Housing	Complete. As stated above, process improvements including streamlined document preparation and wiring funds have reduced time from loan approval to receipt of check.

#	RECOMMENDATION	DEPARTMENT	STATUS
14	Review City's plans for parking, setbacks, street widths, etc.	PBCE	Complete. Setbacks and parking requirements are contained in the zoning Code with additional guidance contained in the Residential Design Guidelines. Cuts to Staff resources have delayed major updates to the RDG. Updates to the RDG related to Mid-Rise and High-Rise residential development are proceeding and are tentatively scheduled to be completed in early 2006.
15	Review the City's LOS policies	Transportation/ PBCE	Complete. The City Council updated the Transportation Impact (LOS) policy in June 2005. At that time, Council updated the North San José Area Development Policy to facilitate intensification and job generation, and housing.
16	Support State legislation to reduce construction defect time limit	Housing/Inter-governmental Affairs/ Attorney	Complete. The City continues to monitor the effectiveness of legislation adopted in 2002 to address this concern and is working with other housing industry and advocacy groups, including the Non-Profit Housing Association, to identify opportunities for new legislative reforms. Bills were introduced in 2004 & 2005 to help further clarify litigation procedures, but did not progress through the legislative process due to disagreements between the stakeholders about whether the bills were necessary. Staff will continue to track the results and any future legislation.
17	Utilize RDA to assemble land	Redevelopment Agency	Complete. The Loft at Alameda, North San Pedro Site, Keystone Place Park View Towers, and One East Julian are all projects that demonstrate success in this area. Lofts and Keystone Place are under construction and will provide 82 for sale units in FY 06-07. One East Julian is expected to start construction in the summer of 2006 on 43 units and Park View Tower and North San Pedro are in the early phase of entitlements and is expected to provide ~586 for-sale units in FY 08-09.
18	Initiate State legislation to revise CEQA rules	Intergovernmental Affairs/ PBCE	In progress. State coalitions of local governments and housing advocates are working on a legislative proposal to streamline the CEQA process for infill housing. The Governor and his Administration have recently begun efforts to introduce legislation to initiate these changes.
19	GO Bond for Affordable Housing	Housing/ Budget	In progress. In November 2002, California voters passed the Housing and Emergency Shelter Trust Fund Act, or Proposition 46, a proposition authorizing a \$2.1 billion General Obligation (GO) bond for a number of affordable housing programs. Housing advocates are working at the State level to raise additional funds for affordable housing and transportation through a new GO Bond measure, which would go to the voters in 2006. Additionally, local housing advocates are beginning polling to determine the viability of a GO Bond to raise funds for affordable housing in San José.

#	RECOMMENDATION	DEPARTMENT	STATUS
20	Implementation of Inclusionary Zoning	PBCE/ Housing	<p>Complete. At the time that this recommendation was made in 2001, the City had an inclusionary housing requirement only in redevelopment project areas by requiring 15% affordable units in each housing development. This yielded relatively few affordable units since redevelopment areas consisted primarily of industrial parks (such as North San Jose) and Neighborhood Business Districts.</p> <p>The City has expanded its inclusionary housing program in two ways: (1) the 15% requirement in redevelopment project areas has been increased to 20% in each housing development, and the expansion of redevelopment into the Strong Neighborhoods in 2002 significantly increased the proportion of housing development Citywide that is now subject to this requirement; and (2) the City has negotiated inclusionary housing requirements in certain specific development projects, with North San José and Coyote Valley being prime examples.</p>
21	In Coyote Valley Specific Plan process, address affordable housing	PBCE	Complete. In August 2001, the City Council adopted a General Plan amendment requiring 20% of all units in mid-Coyote to be affordable.
22	Housing Department should change funding guidelines	Housing	<p>Complete. The Housing Department made funding guidelines more flexible in order to meet the 6,000-unit affordable housing production target for the 1999-04 period.</p> <p>In February 2004, the City Council approved a new Notice of Funding Availability (NOFA) process to assure that only those projects that meet fundamental affordable housing policy objectives will receive funding. Such policy objectives include: competitiveness for outside funding sources; highest leverage/lowest City subsidy; deepest affordability; and timeline. Three NOFA rounds in 2004 resulted in Council funding commitments for six projects totaling over 690 units.</p> <p>In November 2005, the Housing Department initiated a Council-approved over-the-counter NOFA process that includes a threshold requirement that at least 25% of the units in proposed projects must be affordable to ELI households.</p>
23	City to take a proactive role in Brownfield Development	Redevelopment Agency	Complete. The City continues to seek opportunities to redevelop Brownfield sites. The Brandenburg site is an example of this.

#	RECOMMENDATION	DEPARTMENT	STATUS
24	Accelerate availability of publicly owned lands, especially VTA	Housing	<p>Complete. The Housing Department purchased a 5-acre property on Canoas Garden Avenue from the VTA. The City acquired that site (plus an adjacent 1-acre City-owned site) in December 2002.</p> <p>Additionally, the Housing Department has aggressively sought City-owned surplus properties for affordable housing development. Since late-2002, the Housing Department has acquired eight additional surplus properties from the City, and all have been sold to affordable housing developers (with construction either complete or underway by October 2005).</p> <p>Finally, the Housing Department is negotiating with Caltrans to acquire a surplus State property at Ford and Monterey Roads.</p>
25	Make surplus lands available	Public Works/ Housing	Complete. See above response to Item #24.
26	Combine PD zoning, permit and tentative map process	PBCE/ Attorney	Complete. Ordinance change approved to allow consolidated tentative map approvals with zoning on permits. Counter to Council recommendation being studied for additional streamlining.
27	Developer should be allowed to pay for outside plan checking and building inspections	PBCE/ Attorney	Complete. Outside plan check implemented.
28	Planning and Building needs to be streamlined—cut by 25% timelines	PBCE/ Attorney	Complete. Processing goals established with industry for all application types. Downtown Zoning approved to vastly streamline residential high-rise approvals. Investigated alternatives to the PD Zoning process and the nearly 10-week timeframe inherent in that process following resolution of project issues.
29	Put in place master EIRs at GP amendment stage	PBCE	Complete. Some applicants are choosing to apply concurrently for GP and Zoning changes. A single environmental clearance covers both actions and, at times can be reused at the permit stage. Master EIR's certified for North San Jose and Downtown in 2005.
30	Alter building codes and review process for manufactured homes	PBCE/ Attorney	Complete.
31	Clarify existing rules and regulations so developers have more certainty	PBCE	Complete. Formal Prelim process in effect as of July 1, 2002. Ordinance changes to streamline Tree Removals and Signs approved by Council in March and April 2002. Ordinance change to amend Lot Line Adjustment process and to allow a Lot Line Correction consistent with new State legislation was approved by Council on May 21, 2002. Industrial changes proceeding through ordinance drafting and approved process.
32	Review and update code to allow more progressive materials	PBCE	Complete. Building web site includes listing of alternate material approvals.

#	RECOMMENDATION	DEPARTMENT	STATUS
33	Greater customer service among departments	END CSA Team	Complete. The City has created several cross-departmental forums to allow greater coordination between departments. These efforts include the City Service Areas, Development Cabinet and the Inter-Governmental Relations committee.
34	Housing, RDA and CDBG need to be better coordinated	END CSA Team	Complete. See Item #33.
35	Interdepartmental staff task force responsible for fast-tracking infill sites	END CSA Team	Complete. See Item #33.
36	Work with Fannie Mae and Freddie Mac on innovative program ideas	Housing/ Redevelopment Agency	Complete. The City continues to seek opportunities to partner with both Frannie Mae and Freddie Mac. In early 2005, the City was awarded a grant from Freddie Mac to become one of four cities in California with a "Don't Borrow Trouble" program. The program is aimed at education and make homebuyers aware of the terms and conditions of their loans, in order to avoid predatory lending.
37	Work with SJSU on joint projects for housing	Housing/ Redevelopment Agency	Complete. Four historic homes were transferred to and are being renovated for SJSU staff and faculty housing. The Agency and City staff are continuing to work with SJSU and Spartan Foundation to create a homeownership program in addition to a second loan program. This will include seed money of \$500,000 from San José State University.
38	Reanalyze assumption of housing not paying its fair share of taxes	PBCE, OED, Budget	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004.
39	Plan for growth that is balanced with housing production	PBCE, OED, Budget	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004.
40	Consider opportunities for infrastructure in industrial areas	PBCE, OED, Budget	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004.
41	Revise predevelopment loan process to make it easier	Housing	Complete. The process has been streamlined by the creation of standardized, boilerplate loan documents, and a significant reduction in the turnaround time between application and funding of the loan.
42	Examine higher densities on undeveloped land	PBCE	Complete. The City Council approved Phase III HOS sites in December 2004.
43	Explore replacing low density SFD with high density mixed-income housing	PBCE/ Attorney	Complete. The City Council approved Phase III HOS sites in December 2004.
44	High rises in downtown as tall as FAA will allow	Redevelopment Agency/ PBCE	Complete.
45	Allow vertical mixed-use residential by right in commercial and industrial zoning districts	PBCE, OED, Budget	Complete. Live work units allowed citywide with SUP. North San Jose Update was approved in June 2005. Ordinance to allow in North San José intensification area being considered.

#	RECOMMENDATION	DEPARTMENT	STATUS
46	Enable and encourage high density housing on corporate campuses	PBCE, OED, Budget	Complete. The NSJ update was approved in June 2005. Additionally, the Coyote Valley Specific Plan is in progress, proposing opportunities for high density housing within workplace environments.
47	Enable mixed-use development on industrial lands in North San Jose and other locations; allow housing on parking lots	PBCE, OED, Budget	Complete. The NSJ update was approved in June 2005.
48	Encourage mixed-use development in air rights	PBCE/ Attorney	Complete. The City Council approved Phase III HOS sites in December 2004.
49	Affordable housing in office zoning districts	PBCE	Complete. General Plan text amendment adopted in August 2001, expanded a discretionary alternate use policy to allow the possibility of housing on lands designated office. Mixed residential and non-residential uses can also be evaluated with a Conditional Use permit in the Commercial-Pedestrian and Commercial-Neighborhood Zoning Districts.
50	Explore the use of air rights above publicly-owned properties	PBCE/ Attorney	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004.
51	Revise/add to residential design guidelines how to build housing in industrial project	PBCE, OED, Budget	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004.
52	Reuse underutilized retail properties for housing	PBCE/ Attorney	Complete. The City Council approved Phase III HOS sites in December 2004.
53	Rezone underutilized industrial and commercial land for housing	PBCE, OED, Budget	Complete. The Employment Lands Conversion Framework was approved by the City Council on April 6, 2004. Rezoning of industrial lands to be initiated by property owners.
54	Existing \$25 million of 80% funds directed to ELI housing	Housing	<p>Complete. Between 1999 and 2003, the Redevelopment Agency's 80% Fund provided \$31.9 million of funding for the development of 700 units of housing affordable to ELI households. Additionally, the Agency committed \$2.5 million for assistance in financing 70 ELI units in 2004.</p> <p>Beginning in 2004, the Housing Department's NOFA system for funding new rental developments has resulted in funding commitments for 103 ELI units in the six projects approved to date. As noted above (see Item #22), the NOFA system now requires a minimum of 25% ELI units in each project.</p>
55	Adequate staff resources in Planning and Building	PBCE/ Budget	Complete. Adopted FY 2001-02 Budget included new positions in PBCE. Since that time, the City has experienced long-term budget cuts that have impacted Planning and Building staffing levels.

#	RECOMMENDATION	DEPARTMENT	STATUS
56	Lobby for State & federal funds for affordable housing	Housing/Intergovernmental Affairs	Complete. Staff continues to monitor, analyze and advise the City Council on pending federal and state legislation and budget efforts that will increase funding for affordable housing. The Housing Department works closely with the City's State and federal lobbyist to seek funding and advocacy opportunities.
57	Use reserve fund to pay for building permit staff to allow for quicker staff adds	PBCE/Budget	Complete. Already implemented.
58	Increase all GP ranges throughout the City	PBCE	Complete. The Planning, Building and Code Enforcement Department put forward three Housing Opportunity Studies increasing General Plan ranges throughout the City. This effort will be continued through the General Plan Update.
59	Direct Housing Department to use \$25 million already allocated	Housing	Complete. The Housing Department awarded \$27.3 million in funding for ELI housing construction in FY 2001-02.
60	Promote concurrent processing of GP, PD zoning, PD permit and tentative maps	PBCE	Complete.
61	Implement the Smart Permit Process of SVMG	PBCE	Complete.
62	Planning is understaffed—need higher level planners	PBCE/ Planning	Complete. See Item #55.
63	Team of internal advocates for projects	END CSA Team	Complete.
64	Revenue sharing among jurisdictions	Budget/Inter-governmental Affairs	Complete.
65	Make secondary units allowable	PBCE/ Housing	Complete. The Planning, Building and Code Enforcement and Housing Departments have both recommended the adoption of an ordinance that would allow for a pilot secondary units ordinance. This pilot program would run for 100 new permits or the duration of one year, whichever comes first, and allows an opportunity for the City to evaluate any potential impacts prior to a final adoption of a secondary unit program. The City Council will provide direction about whether to proceed with a pilot program in November 2005, with anticipated implementation of the pilot program by January 2006.
66	More flexibility in affordable housing programs	Housing	Complete. The Housing Department made funding guidelines more flexible in order to meet the 6,000-unit affordable housing production target for the 1999-04 period. Additionally, two of the six housing projects approved from the 2004 NOFA rounds include a mix of family apartments and SRO/studio units.
67	Support full range of GP densities	PBCE	Complete. See Item #58.

#	RECOMMENDATION	DEPARTMENT	STATUS
68	Set aside funds from transportation measures for affordable housing	City Manager	Complete. Housing advocates throughout the State are working to link funding for transportation and housing initiatives. Legislation proposing a bond for both transportation and housing is anticipated to be introduced in 2006.
69	Investigate a nonprofit land trust to acquire land and for housing	Housing	Complete. The Redevelopment Agency has actively acquired land to hold for future housing development. Additionally, the concept of a land trust is being discussed for use in the development of Coyote Valley.
70	Require job generators to pay into a housing assistance fund	OED/ City Manager	Dropped. In light of the recent economic downturn, the City has consciously avoided introducing new fees and taxes on job-generating activities.
71	City to explore ways to address construction defect legislation locally	Housing/ Intergovernmental Affairs	Complete. City staff explored ways to address construction defect litigation problems on State and local levels. After careful consideration, staff decided to focus on addressing this issue at the State level.
72	Housing should be part of infrastructure/transit project should buy land	PBCE	Complete. The City is working directly with the Valley Transit Authority to identify and buy land for future housing development. Additionally, the Housing Department encourages transit-orientated developments.