CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: NEIGHBORHOOD SERVICES AND
EDUCATION COMMITTEE

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 19, 2008

Approved _____

Date   *11-19-08*

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

SUPPLEMENTAL REPORT

SUBJECT: ADDITIONAL SUPPORTING INFORMATION REQUESTED IN RELATION TO THE CITY'S CONSIDERATION OF A CITYWIDE INCLUSIONARY HOUSING ORDINANCE

In the course of discussions regarding the development of a policy recommendation for a Citywide Inclusionary Housing ordinance, the Mayor and City Council requested that the Housing Department provide additional information to help inform the Council as it makes its decision whether to adopt an ordinance and what provisions such an ordinance might contain. Specifically, the Department was requested to provide the following information:

(1) ATTACHMENT B – A Compilation of the Comments Received During the Outreach Process
(2) ATTACHMENT C – Alternative Policies and Funding Sources for Affordable Housing
(3) ATTACHMENT D – A Survey of Other Cities with Inclusionary Housing Programs
(4) ATTACHMENT E – A Literature Review of Studies Completed on the Impact of Inclusionary Housing
(5) ATTACHMENT F – Statistics Regarding Past and Future Production of Affordable, Inclusionary, and Market Rate Housing
(6) ATTACHMENT G – Several Questions Raised at the November 10th Study Session, including the Impact an Inclusionary Program would have on City Revenues.

Attached to this supplemental memorandum are the responses to the first four of the six items above (Attachments B, C, D and E).

The Department is working with the Planning, Building and Code Enforcement Department and the Redevelopment Agency to complete the production projections. While it is an easy assignment to produce information about past performance, projections require substantial effort, including knowledge of individual projects and when it is anticipated that they will move forward. This information, along with responses to the questions raised on November 10th, will be sent under separate cover.

LESLYE KRUTKO
Director of Housing

Attachments

For questions, please contact LESLYE KRUTKO, DIRECTOR OF HOUSING, at (408) 535-3851

Comments Received During the Outreach Process (July to Date)

The attached chart summarizes the comments received in the following settings over the course of the past several months:

(1) <u>One-on-One Meetings with Developers, Advocates, and Other Interest Groups</u>—Held from August through November

(2) <u>Stakeholder Meetings</u>—Meetings on September 23rd, September 25th, October 6th

(3) <u>Public Outreach Meetings</u>—Meetings on October 14th, October 23rd, November 3rd, November 6th, November 10th, November 12th

(4) <u>Council, Committee, and Commission Meetings</u>—Meetings on July 10th, August 6th, August 14th, September 11th, October 9th, October 15th, October 29th, November 10th

PARTICIPATION

The one-on-one meetings were particularly helpful. The developers we met with were pleased to have the opportunity to speak with us and to provide their concerns, opinions, and recommendations. A total of 47 people attended the stakeholder meetings and 72 citizens attended the six public outreach meetings. (These numbers represent unduplicated people; some people attended multiple meetings.) A few written comments were received.

BASIC FINDINGS

▪ <u>Experience with Inclusionary Programs</u>-- Developers have lots of experience working with inclusionary housing in the Bay Area. Cities mentioned in the one-on-one meetings included: Santa Clara, Cupertino, Dublin, Walnut Creek, Fremont, Union City, Contra Costa County, Pleasanton, Livermore, San Diego, Oceanside, Santa Cruz, Palo Alto, Sunnyvale, San Mateo, Mountain View, Hayward, Irvine, Sacramento, San Bruno, Redwood City, Los Gatos, and Carlsbad. Many developers have had experience developing housing in San Jose Redevelopment Project Areas, where inclusionary requirements are currently in place. Developers were able to provide information about what worked and what didn't work. Several cities were noted as having particularly problematic ordinances, and others as having ordinances that San Jose should review in considering how to formulate an ordinance.

▪ <u>Concern About Economy</u>—It was widely acknowledged that this is a particularly difficult economic climate. In fact, for nearly every developer, it is the worst economic climate they have seen in their careers. The City needs to ensure that the ordinance has a lag factor to

ensure that the economy is back on track before implementation. There should also be triggers included in any ordinance that respond to situations where the market has dropped.

- Support or Opposition to Inclusionary Programs—While most developers had experience with inclusionary programs, most were clear that they would prefer that the City's program remain confined to the Redevelopment Project Areas. Affordable housing advocates are strongly supportive of expanding inclusionary zoning beyond RdA areas as a way to increase affordable housing opportunities in the City.

- Economic Impact of Inclusionary—There were mixed views on the economic impact of inclusionary programs, and who ultimately pays. If there are adequate offsets, then inclusionary requirements can be cost neutral. Regardless, most developers interviewed indicated that inclusionary programs do not increase the price of housing; rather, market forces dictate the price of housing. Many said they price their land offers to account for inclusionary requirements. Some differed in this opinion and said that land owners won't adjust their prices and that the cost of inclusionary will make building impracticable.

- ELI Housing Need—Advocates feel strongly that San Jose needs to address the need for housing for extremely low-income households. Generally, they understood that this is most practical with alternative compliance options, such as an off-site project with an affordable housing developer or payment of an in-lieu fee. Nevertheless, the provision of housing opportunities for San Jose's most vulnerable residents was their highest priority.

- Guiding Principles— Any ordinance should be structured to meet the following guiding principles:

    (1) **Simplicity** – An inclusionary housing policy should be easy for the developers to understand and for the City to administer.

    (2) **Flexibility** – An inclusionary housing policy should give developers as many alternatives as possible for compliance.

    (3) **Consistency and Fairness** – All developers should be treated equally, particularly with respect to projects in the pipeline.

    (4) **Certainty** – Developers, affordable housing advocates and the City should have advanced knowledge of what the impacts and outcomes will be with an inclusionary housing policy. The rules and process of the inclusionary housing policy should be clearly defined.

- Pipeline—The pipeline is a real concern for those developers who have already committed to land purchases or have taken steps as part of the entitlement process. It is critical that any ordinance have a clear and fair definition of pipeline. At the same time it was acknowledged that there should be some timelines that have to be met to ensure that the project will proceed.

- <u>Alternative Compliance Options</u>—Developers strongly preferred as much flexibility, and as many alternative compliance options as possible. In-lieu fees were considered important, as was the ability to work with a nonprofit developer on an off-site project, and to develop a different product type. Neighborhood residents expressed concern about these alternative compliance options being "by right" and wanted the City to have a say in whether these options could be selected.

- <u>Offsets</u>—Some developers thought offsets worked, and others didn't. By way of example, parking reductions were cited by some as being helpful, since parking spaces can cost upwards of $50,000 a space. However, others stated that the market demands parking, so even if offered, this offset wouldn't have value. Neighborhood residents expressed concerns about offsets, wanting reassurance that they would have a say regarding offsets on any project being proposed in their neighborhoods.

- <u>Homebuyer Selection</u>—Many developers expressed that it is critical that an inclusionary program be designed so that it is easy to find buyers. Concern was expressed that there be a way to be relieved of the affordable requirement if, after a concerted effort, a buyer could not be found.

- <u>Miscellaneous</u>—Several developers building projects in RdA areas inquired about the possibility of opting to participate under the new program with the thought that the program now under development might offer more flexibility than the current Redevelopment inclusionary policy.

COMMENTS

Attached is a chart that details the comments received to date. There is no weighting of these comments. In other words, some of the statements included in the charts were said one time, and others were said multiple times. The points that were raised most often, however, are noted in the section above.

COMMENTS RECEIVED DURING THE PUBLIC OUTREACH PROCESS

Comments from Developers from One-on-One meetings

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
General Comments	- Thank you for reaching out. Work all over the country, and no one has ever asked their opinion/for advice before - Really appreciate having the opportunity to meet to discuss our experience and concerns. - Not sure that below market rate (BMR) programs should be compromised by poor economic conditions. - Land markets are resettling. In some ways a downturn is the best time to consider a policy.	- Certainly a bad economic time. - This is a perfect storm. Not doing anything right now due to economy. - VLI rents are close to LI rents, which is a problem - The biggest challenge right now is the economy - Timing is PR Problem. Things are bad now. - Land is not selling because land owners haven't adjusted to new economic reality. There is a bid-ask gap. - Hard to make a land deal right now. Owners are waiting until land values go back up. - Need better participation from the employer sector.	- Developers are looking for clarity. - Extraordinary changes in the planning process are needed. - Drop the PD Permit and keep PD zoning. - Counter to Council report suggested changes that have not yet been implemented. - Have a great relationship with the Planning Department. - Industrially zoned land is now worth more than residential land. - It is more economical to build a lower-density product. - High rise development is difficult, since you can't phase it in. - Permit streamlining is important. - Residential design guidelines work against developers. - Need to consider switching minimums and maximums. Have minimum parking requirements, but instead should have <u>maximum</u>. This reduces development costs and increases the use of other transportation options.
General Comments about Inclusionary Policy	- Most developers are already familiar with inclusionary requirements and work in Bay Area cities that require inclusion of affordable units. - Most all development completed recently has been in areas subject to inclusionary. Worked in SNI areas in San Jose. - Used to inclusionary—everyone has it. - We should favor people who live and	- There is a problem when an inclusionary program applies to million dollar homes. - Current RdA inclusionary program is the most onerous in the State because of the income requirements rental developments are required to provide. - The biggest problem with inclusionary programs is that they don't have good policies and procedures in place (excessive	- An inclusionary program will impact the price developers are able to pay for land. Developers will calculate the cost of the inclusionary requirement and adjust their land offer accordingly. - Inclusionary programs do not impact prices, rather they affect land valuation. - In determining options, need to look at the math. Everyone is opting for in-lieu

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	work in San Jose. - Policy should be Citywide, not just in RdA areas. - Allow developers currently in RdA areas to choose the new policy. - Don't resist inclusionary programs. When possible, include the units, don't pay a fee. -Experienced partnering with nonprofit developers. This has worked well. - Should require higher inclusionary requirements for industrial land conversions.	reporting as an example). - Not an honest way to go about this. The public as a whole should be involved. - Not supportive of inclusionary policy. - We are social engineering ourselves out of a problem. What's the political will to build housing? - Inclusionary increases the cost of housing. - Business should help pay too. Not fair just to impact one industry. - Prices go up 10-20% as a result of inclusionary. - Problem with land value is that appraisers always look back. - Need to improve current processing under existing inclusionary program. Not always sure what the inclusionary requirement is until later in the process.	fee in North San Jose due to the math. - All cities are different, and all cities that they work with have different policies. - Don't believe that inclusionary requirements will come out of land prices. - We don't have inclusionary discussions in other parts of the country, like Florida and Texas, because they are providing affordable housing in the marketplace. The entitlement process in California/San Jose is really stringent and raises costs. - As long as prices continue to go up, developers can absorb the inclusionary requirement. - Big imbalance between what landowners think their land is worth and what it really is worth. - Developers will gravitate to most economical option. - The larger the project, the easier to implement.
Guiding Principles/ Key Elements of Success	- Policy needs to be clear and concise. - The policy needs to be flexible to allow developers to convert units to rental when for-sale units don't sell. - The simpler, the better. - Need flexibility, certainty, and consistency. - Need flexibility to respond to market conditions. - More leadership, clarity, certainty in development and entitlement process. - Efficiency, fairness, flexibility. - Flexibility, choice, control. - The easier to implement and understand, the better. - Any offsets you can include provides relief.	- It is difficult when requirements are so restrictive that you can't change anything. - Difficult when programs have management/paperwork/audit processes that are burdensome.	- Flexibility in the current RdA process is good. - Address asset limits.

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	- Need to have flexibility—opportunity to pay a fee. - Flexibility, flexibility, flexibility - Need a clear process for getting people qualified, in contract, and closing escrow. - Certainty is critical.		
Offsets—Parking	- There should be a reduction in parking for affordable units versus market-rate units.	- Concern about adequate parking . Parking reductions aren't really viable. - There is a market accepted parking ratio. Might work, might not. - Don't like parking reductions.	
Offsets—Density Bonuses	- There should be like for like density bonus. If you add 24 affordable units, you should be allowed to build 24 more market-rate units. This should be automatic. - Density bonus can help for some, but not all, projects. A lot of this flexibility is already available through the City's Planning process. - Density bonus works.	- Density bonus doesn't work. - Practically, this doesn't always work. A real density bonus would work, however. - Density bonus is a Trojan horse. - Density bonus doesn't help. With more density comes higher construction costs.	
Offsets—Design, Height Limitations, Setbacks, Etc.	- There should be automatic height bonuses for all projects that include affordable units. - FAR and other features, like lifting height restrictions can work. - Should have relief from setback and design guidelines.		
Offsets—Fees and Charges	- Affordable units should be exempted from fees. - Should have fee relief for BMR units. - Relief from park fees is an incentive. - Should consider exempting moderate income units from parkland fees.	- The City charges too many fees to developers. We need to check this out. - Fees have gone up at the same time construction costs have risen.	- Paying the fee in NSJ is a no-brainer - Current parks impact fees charged for development are always behind (trail appraisals).
Offsets—Planning Processing	- There should be expedited processing of permits. - Expedited processing is great - The narrower the window between starting and finishing the project, the less	- What does priority processing mean?	

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	risk. "Time is our enemy" - Projects that include inclusionary units should jump to the front of the entitlement line. - Time is money. But if you offer this, it has to work. May work better with building permit process than planning process.		
Offsets—Other	- Good to be able to build in separate phases.		
Pressure Valve	- When affordable units don't sell, the developer should be able to convert the units to market-rate and pay the inclusionary fee - Should consider starts or starts per type. Look at how many units are for sale each year that are rental and for-sale. - Like the idea of using the market. - When market prices are the same as affordable, then relieve developer of the burden. - Really not an issue. This is developer risk.	- If you implement now, it may shut things down.	
Trigger	- Consider building permits (but difficult to administer). - Consider total amount of sales. - Consider median sales prices per product type. - What does a 12-month rolling list of permits look like? - Where in the development cycle does it make sense to have a trigger? At the beginning or at the end? - Should be a different trigger for rental and for-sale.		- If pipeline is addressed, not sure that a trigger is necessary.
Pipeline	- Pipeline issue is very real. Should be determined based on how far along a project is. Tentative Map has a 3-year life. A developer who is under contract or		- Make definition as liberal as possible.

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	has an option should not be subject to the policy. - Should require that developers show progress if they are included in the pipeline. - Should be as early in the process as possible. Selfishly, would like it to be at the time of purchase contract. - Should be the signed purchase and sale agreement, though this might be hard to enforce. - Maybe a legitimate planning process, like PD Zoning Application submitted. - Should be determined when developer has made a significant financial decision. - Concern about planned-unit developments. How will these be handled? Grandfathering in this case is important. - Define as 60-90 days after contract for land is entered into. Prior to developer going hard on land. - Other communities use site development permit. Waiting until PD Zoning is too late. - Should be when a developer agrees to a land price. - Consider when an application is complete for the first application to the City.		
Percentage of Units Required	- The number of units should be reduced from 20% to another number, for example, 10%. - 20% is too high. - 12.5% to 15% is better than 20%. - Consider decreasing the percentage required if more affordability is achieved. - Consider staging—increase the percentage required over time. - Consider 5-5-5, very low, low- and		

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	moderate-income split.		
Homebuyer Selection	- It is helpful when the City maintains and controls the list of eligible homebuyers. City should have a pre-qualified list of buyers. - Like having the ability to market units and not have the City do this. Okay for City to have a list, but people should not have to be pulled off this list. - The City should hold homebuyer education events. - If units don't sell within a specified time period (180 days?), allow developers to sell at market-rate (if City can't find a buyer and active recruitment is documented). - Should have a sunset clause if you can't sell within a certain time frame.	- In some cities (Santa Clara was mentioned) homeownership units are hard to sell. - Some times there is a limited pool of people who qualify.	
Alternative Compliance Options- In-Lieu Fee	- Get rid of the current cap and do it by unit size. -	- Current in-lieu fees are too high.	- Developers will pay an in lieu fee when it makes the most financial sense.
Alternative Compliance Options- Offsite Development	- You can provide more units if you allow for offsite development with a nonprofit. - Make a larger radius for the development of off-site development (don't require that it be adjacent to the market rate development). -		
Alternative Compliance Options- Credits and Transfers	- Allow developers to exchange affordable units.		
Alternative Compliance Options- Acquisition Rehab	- Had success in a northern California City providing funding to a nonprofit to acquire and rehabilitate a project to meet inclusionary requirement. - It is far more efficient to acquire existing units than to build new.		

Comments from Housing Advocates and Others from One-on-One Meetings

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
General Comments	- Should consider using City surplus land to build affordable housing. - Consider housing trust funds—raising 20% funds to 30%, looking at a sales tax increase. - Consider inclusionary as a tool box. Inclusionary is one tool in the box. - Maximize City-owned property. - Grow the Housing Trust Fund. Consider new taxes. - Housing production is important. - San Jose is doing a good job. City is doing well with design guidelines. - You can't spend too much time thinking about this. Cycles are not clear. The reality is that its not the policy that is keeping people from building.	- Credit crisis has stopped everything. - Inclusionary programs can work; the challenge is that at the current time it is a disincentive. - Policy needs to address diversity in housing. Not everyone is getting the same chances. - Lots of City policies (e.g., green) are increasing costs. - We under produce housing in San Jose—don't meet need.	- Need to ensure that the program is staffed appropriately so there is not a slow down in homeowner approvals. - Staffing decisions are critical. - Businesses/CEOs don't care about affordable units. - Need affordable units at various affordable levels. - Affordable housing should be considered an extraordinary benefit. - Staffing should reflect the priority. - Should talk to management companies to get input on how inclusionary programs work. - Question—how do we deal with specific planning areas? - It should be a higher priority to provide deeper affordability and special needs housing than it is to provide moderate-income housing. - Balance rental and for-sale housing. - Consider asset limitations. - HOMEBRICKS can help find qualified homebuyers. - Focus on trying to make this as revenue neutral as possible. - How can we bring in above mod?
General Comments about Inclusionary Policy	- Devil is in the details. - Choice is important. It's also a legal issue. - Don't try to get this 100% right. There's a big downside to over doing it. - Incentivize developers to partner with nonprofit housing developers. - Consider a policy that says you have to include the units unless another agreement is reached.	- It is difficult for property managers to understand the difference between BMR and market units, so management is more challenging. - Inclusionary programs, as well as other programs and policies, can discourage investment. - If projects don't proceed, inclusionary is cited as reason - Start with a less aggressive program as a	- Inclusionary housing requirement is built into the land price. - Might need to consider downtown differently.

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
		nod to the current economic situation.	
Guiding Principles/Key Elements of Success	- Should have flexibility like the current RdA policy. - Fair playing field for everyone is the most important concern. - Consistent and clear. - Maximum flexibility is needed. - Keep it simple. - Reasonable and balanced. - Simple administrative procedures, flexible, consistent/certainty. - Need to address these in policy— predictability of costs, certainty, reduction of complexity. - Three important issues: (1) even playing field. Every block should be considered the same; (2) Fairly treat pipeline projects; (3) flexibility and options. Fee is most important of all. - Policy should be cognizant of project size/developer size. - Should have a broad tool box of options. Consider that every development and developer is different.		
Geographic Area	- Should it be citywide or concentrated in areas where we want growth—transit corridors? Different requirements in different parts of the City? - Important that this is Citywide and not limited to certain micro markets.		
Offsets—Parking		- Reduced parking may work in some cases, but not all.	
Offsets—Planning Approvals	- Fast tracking is good. Expedited permitting process, like in Vancouver. - Assign inclusionary deals to an elite team like in San Diego. - Would be helpful to have more flexibility in permitting.	- Timeline certainty could be an offset, but it's not really real. - CEQA is a problem.	

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
Offsets—Design, Height Limitations, Setbacks, Etc.	- Adjust policies to encourage lower-cost units to be built (carport parking, basic-small units).		
Offsets- Fees and Charges		- Park fees are a problem.	
Trigger	- When permits fall below a certain level (2,800 units in any revolving 12-month period). - Vacancy rates in rental housing. When there is a glut of units—6% or more that aren't renting. - Do you need a trigger for rental? It's easier to meet this requirement given other funding (bond financing). - Planning Department measure—are people building? - Real Estate Market—what is the availability of for sale housing? - Developer should prove economic hardship rather than having a general trigger. - Should consider building permits, vacancy rates, days on market, housing prices.		
Pressure Valve	- Link to building permits for housing—rolling 12 months, drop below a certain number. - Twelve month lag. Three year implementation. - Should have a six month lag.		
Pipeline	- Pre-existing residential zoning or zoning complete prior to 120 days. - Set early in process. Developers lock in price even before submitting to Planning. - Consider when complete application is on file. - If you set the definition too early in the process, everyone will ensure they get		

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	something in. Should be PD zoning or permit. - Be careful to set this right so there isn't a flood of applications. People can then sit on the applications.		
Alternative Compliance	- Strongly support offsite development and in-lieu fees. Stand alone projects are easier for management companies. - Stand alone projects can offer deeper affordability. - Units should be included in each development in order to achieve economic integration. Only okay to pay a partial fee. - Land dedication works well. - Set in-lieu fee based on development cost less restricted sales price. Once a fee is set, have an index that regularly increases it. - Fee shouldn't be set so it is the favored option. - An in-lieu fee is important. - Set fee higher. - If offsite construction is allowed, require it to be within one mile of the project site.	- The City needs to look at how it calculates income. It would be helpful if the City used the State's definition. - Currently, in-lieu fees are too low. Can't cover cost of producing the unit.	- Most cities use equity share concept, not deed restrictions.
Homebuyer issues	- Should underwrite to 120% of median income, not 110% to ensure there is a large enough band of qualified buyers.		- Deed restrictions are a nightmare. Equity share works much better.
Percentage of Units Required	- Very important that this stay at the current 20% requirement. - 15% if going Citywide. Targets at 9% Low-Mod and 6% Low Income. - 20% is high. Go down to a slightly lower rate.		
Affordability	- Need to address ELI Housing Need		

Comments Received at Stakeholder and Public Meetings

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
General Comments	- Improve processing timing. Delays have a financial impact. - ELI needs more consideration. - The City needs affordable housing.	- Make sure the ordinance is precise so that people can't wiggle out of requirements. - Stop landbanking. Take inventory of all publicly held land. - Housing does not pay for required city services. Affordable housing pays less.	- Find the best ways to leverage dollars. - Consider historic preservation earlier in the process. - Define the goal—is it more efficient process and more units? - Do BMR units affect property values? Are neighborhoods informed that housing for lower- and moderate-income people might be built nearby? - Can you visually tell a unit is an inclusionary unit? - Are affordable units exempt from property tax? - Why place affordable housing in high cost areas? - Cheaper housing will hurt property values.
General Comments about Inclusionary Policy	- Need to have a way to evaluate effectiveness of any inclusionary program that is implemented. - Inclusionary Programs are great.	- Current market is tough—land prices are still high. Landowners should be a part of the equation. - Don't like inclusionary programs.	- Consider different policies for rental and for sale.
Guiding Principles/Key Elements of Success	- Attack the cost side for builders—allow density bonuses, fee credits for building on site. More flexibility. - The City should work with developers regarding location and mix of units. Want a genuine collaboration. - Flexibility is the key. - Ordinance needs to be clearly defined, predictable, flexible and transparent. - Ease of administration. City needs to prioritize staff resources. The unintended consequence of flexibility is increased staff demand.	- Any inclusionary proposal must take into account the current market.	
Geographic Area	- If the intent is to build more units, it shouldn't matter where they are located.	- If you limit inclusionary to certain parts of the City (like TOD areas), you provide a	

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
	- Policy should be Citywide to ensure social equity goals. - Policy should focus on TOD areas.	disincentive for development.	
Small Project Definition	- Range of responses was from 0 to 100, with most respondents indicating between 10 and 20.		
Offsets- General	- Should allow developers of off-site projects to compete for State and federal funding.	- Density bonuses don't always work since the City already allows density. - Neighborhoods don't like density.	- No single incentive that works. - Offsets need to be compatible with surrounding community.
Offsets—Parking	- Flexibility with parking can be very important. Parking spaces cost $40-$50K to build.	- Market demands parking. - Neighborhood Concerns about reduced parking impacting nearby streets	
Offsets—Planning Approvals	- Consider special handling for inclusionary projects. - Streamlined processing of applications would be great if it can be done.	- Not sure streamlining would be achieved.	
Offsets—Design, Height Limitations, Setbacks, Etc	- Ability to downsize units or change interior and exterior finishes is important. - Different unit type (duplexes instead of single family homes). - Alternative design is good, but units should be functionally equivalent. - Units should be dispersed throughout the development.	- High density in low-density neighborhoods shouldn't be allowed. Need transition.	
Offsets- Fees and Charges	- Defer fees until Close of Escrow. - Exempt inclusionary units from some fees.	- Concern that waiver or delay of fees has a budgetary impact on the City. - Concern about affordable housing not paying park fees.	
Trigger	- Should be determined when prices push down to a certain level. - Unit should be released if it doesn't see in a particular time frame. - Consider a "participation agreement" where a developer has to pay a fee if it sells more units than anticipated during a down market.		
Pressure Valve	- Measure by permits—historic average. - Useful for ownership units. Determine a formula for when this goes into effect.		

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
Pipeline	- Effective date should be in one year. - When projects have filed their PD Zoning application. - Earlier in the process—when developer contracts with a landowner. - Easiest option is to use a City benchmark that can be easily determined. - Should have a requirement for when pipeline projects start consruction.		
Alternative Compliance	- Consider dividing the City up into quadrants to determine proximity of offsite construction. - Credits and Transfers are good. - In-lieu fees should be offered. - Offsite construction should only be allowed for special needs and senior housing. - In-lieu fees need to be set at the right amount so everyone doesn't choose to pay instead of build. - Allow developers to do a combination— pay fees and build units. - Use in-lieu fees for ELI Housing.		- Should alternative compliance options be by right?
Homebuyer issues	- City should help find buyers	- City should let developer find buyers.	
Percentage of Units Required	- 5-10% requirement is more viable.	- Consider the impact of the percentage required to be affordable on lender interest.	
Affordability	- Different affordability for for sale and rental housing. Highest need for rental is ELI-VLI-LI. Highest need for for-sale is LI-MOD.		
Other Issues	- Administrative issues are important to consider. Let developers qualify homebuyers. Ensure that there is an out if units don't sell. -		

Comments Received at Special Listening Session on Ways to Produce Affordable Housing

Issue/Option	Positive Comments/Suggestions Received	Negative Comments/Concerns Expressed	General Comments
General Comments	- Land is harder to find. The City can help support development. - The City has achieved its housing goals due to political will and RdA monies—both of which may not always be there.		- The need is for very low-income households. - Concern is for homeowners with declining home values - Focus on homeownership. Use existing land that is available. - The City should review a variety of options. - More training and education is needed for people to stay in their homes. - Need to consider the difference between rental and for-sale housing.
General Comments about Inclusionary Policy	-If not Inclusionary Zoning, then what? - The purpose of Inclusionary is important. The City needs ELI and rental housing. - San Jose's program works well. It has to be flexible.	- Inclusionary programs are not effective, efficient or equitable. - Inclusionary programs only impact the development community. - Inclusionary is burdensome and won't produce housing. - There is no incentive for homeowners.	- Need to be clear about what the goal is. The Development community has not bought into the proposal because the goal has not been defined. - Need housing at all income levels.
Specific Comments about Inclusionary Components	- Policy should include credits and transfers. - Allow creative and flexible ways to use land. - Santa Clara's program, which uses an equity share model, is a good one. - Better to have an in-lieu fee than to require that for sale units be built on site.	- Deed restriction doesn't work and doesn't help those who need it. - Concern that assisted homebuyers may not be able to afford increases in HOA dues.	
Revenue Ideas	- The City should create a Housing Trust Fund. - Use construction taxes to fund this Fund. - A Housing Trust Fund would provide a continuous revenue source. - Support cooperative housing - Create incentives. - Support a permanent source at the State level. - Consider a document recording fee.	- The business sector needs to be part of the solution; this shouldn't be only the responsibility of developers.	- Would require political will, because monies are already allocated to other uses.

ATTACHMENT C

Alternative Policies and Funding Sources for Affordable Housing

Successful housing programs employ a variety of different tools to meet a community's affordable housing needs. The City of San Jose has a comprehensive program that creatively uses available resources and legislative and regulatory measures to offer housing opportunities to the City's residents. These include:

FUNDING/RESOURCES

The City of San Jose has produced more housing than any other city in the State of California, largely by efficiently and creatively using the resources it has available. Programs include: loans for large rental developments, second mortgage assistance for first-time homebuyers, acquisition/ rehabilitation financing, and loans and grants for single-family rehabilitation projects. Funding for these programs comes from:

- Local Funding— The City issues Tax Allocation Bonds to fully use the City's Low and Moderate Income Housing Fund (20% of Redevelopment Agency Tax Increment Funding). These funds are supplemented by interest earnings, loan repayments, and other miscellaneous revenue. Typically, the City has about $60 million available from this source annually.

- Additional Redevelopment Funding—Over the years, the Redevelopment Agency has allocated additional 80% bond proceeds to supplement the 20% funds, including funding for the development of extremely low-income housing and for projects like the Las Mariposas for-sale development and the Delmas Park Teacher housing development. Additionally, the Agency committed substantial funding to reimburse the Parks, Recreation and Neighborhood Services Department for Parkland Fee exemptions for lower-income housing construction.

- Housing Trust Fund-- The City created a Housing Trust Fund (previously known as the Housing and Homeless Fund) to provide funding for activities that aren't eligible for 20% Redevelopment funding, particularly services to the homeless. This fund is replenished with bond administration fees, tax credit application review fees, and other unrestricted sources. Typically, the City has about $2 million available from this source annually.

- Federal Funding—The City receives federal entitlement funding (Community Development Block Grant, HOME Investment Partnership Program, Emergency Shelter Grant Program, Housing Opportunities for People with Aids, and Neighborhood Stabilization funds). Typically, the City has between $15-20 million available from this source annually.

- Other Competitive Funds—The City applies for and receives funding through competitive efforts as funds are announced. These funds include from the State BEGIN Homeownership Program, the CalHOME rehabilitation and homeownership program,

and the Workforce Housing Investment Fund. The City regularly receives federal earmarks to assist with specific projects and programs.

- Leveraging—The City leverages its funds with other State and federal monies at a rate of two and-a-half to three dollars of outside funding to each dollar of City funds. These funds come from bond financing, tax credits, State funding (such as Proposition 1C and Proposition 46), and HUD funding (such as Section 202 for the elderly and Section 811 for the disabled).   In addition, the City leverages private funding from banks, the State Housing Finance Agency, and from smaller sources like the Federal Home Loan Bank's Affordable Housing Program, the County of Santa Clara, and the Santa Clara County Housing Trust. The City typically leverages about $150-180 million annually from outside sources.

- Bonding Authority—The City uses its authority to issue private activity bonds to assist developers who want to provide affordable housing opportunities using tax exempt bonds. Many of these developments provide affordable rents without additional City subsidy.

PROGRAMS/POLICIES

- Inclusionary Housing in Redevelopment Project Areas—Currently, the Redevelopment Agency has a policy that requires each residential project in Redevelopment Project Area to either: (1) set aside 20% of its units within the project for lower- and moderate-income households, (2) provide for lower- and moderate-income units in a separate stand alone project, or (3) pay an in-lieu fee at a specified rate. In recent years, the City has created about 2,700 inclusionary units in RdA areas, with 600+ units now in the planning and development stages.

- Fee Waivers and Tax Exemptions—The City waives certain fees and taxes for lower-income housing units (not moderate-income units), including: the Building and Structures Construction Tax, the Construction Portion of the Construction and Conveyance Tax, the Commercial Residential Mobilehome Park Building Tax, the Residential Construction Tax, and Parkland Dedication fees.

- Secondary Units—The City allows for the development of second units in some cases to provide additional housing opportunities, particularly for extended family members.

- Housing Preservation- The City works to preserve existing affordable housing that is subject to reversion to market-rate to keep it affordable by assisting in refinancing debt, providing financial assistance, and providing technical assistance.

- Surplus Lands—The City seeks opportunities to purchase surplus lands from various government entities, including the City itself, the Valley Transportation Authority, the County of Santa Clara, and local school districts. Typically, the City pays fair market value for these sites, as the agencies are selling the properties in an attempt to shore up their own finances, so the housing created is not subsidized through this action.

NEW AND ONGOING EFFORTS

The Housing Department continually looks for new and creative means to promote and increase affordable housing. The City regularly prepares reports and considers new strategies. These reports include: the annual Consolidated Plan, which is required by the federal government, the Housing Element of the General Plan, which is required by State law to be completed every seven years, and the Five-Year Housing Investment Plan, which outlines the City's action plan for meeting housing needs over a five-year period. The most recent five-year plan, completed in June of 2007, offered a number of recommendations with the help of a stakeholder group.

Listed below are a number of other alternatives that the City can employ to increase affordable housing. As detailed in the 2007-2012 Five-Year Housing Investment Plan:

Issue	Action	Status
Zoning	- Evaluate all sites planned for housing. Proactively zone sites when feasible. - Provide developers with information about sites where the City would like to see housing built to save them money and time.	Underway as part of the Housing Element process
Permanent Funding Sources	- Protect the Low and Moderate Income Housing Fund ("20% Fund"). - 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 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. - Support federal legislative efforts, including the passage of the National Affordable Housing Program. - Support efforts at the State level to identify ongoing funding sources for affordable housing.	Ongoing
Housing Authority	- Work with the Housing Authority to set aside Section 8 Housing Choice Vouchers for the chronically homeless. -Apply for additional vouchers as available.	Ongoing
Increase Federal Entitlement Funding	- Oppose reductions to federal entitlement programs. Advocate for full funding. - Advocate for changes to the federal law formula allocations to ensure that San José receives funding commensurate with its size and community needs.	Ongoing
State Redevelopment Law	- Support efforts to continue the affordable housing set aside beyond the life of Redevelopment Project Areas.	Ongoing

One of the most important efforts the City is currently undertaking that benefits affordable housing is the effort to increase the cap on Redevelopment Tax Increment in San Jose. While the 20% Fund still has some room to borrow, it is anticipated that, without an increase to the cap, the City will reach its capacity in the 20% Fund in the next five years; as a result, the City's ability to make funding commitments to projects may end within 36 months. Even with a cap increase, however, more needs to be done. A cap increase will allow further borrowing, but the borrowing will be dependent on increases in annual increment.

Additionally, the City has actively participated in sessions with the State Department of Housing and Community Development as it explores options for a Statewide, permanent source of funding. The State's voters have approved a number of bond initiatives since 1990 to finance affordable housing efforts, but these funds have been quickly allocated. The last measure—Proposition 1C, passed by the voters in 2006—is expected to be depleted in upcoming months. The City depends on these funds to leverage local funds. Without these State funds, the amount of City funding to create affordable units is much higher.

Local Recommendations to Increase Affordable Housing Opportunities

Recently, the Bay Area Local Initiative Support Corporation (LISC) and San Jose State University teamed up to explore the extent of the housing crisis in Santa Clara County and offer recommendations on how to solve the crisis. The study said that $4 billion in additional local funding over the next 20 years is needed to meet the existing and growing affordable housing demand in Santa Clara County.

The Blue Ribbon Commission on Ending Chronic Homelessness in Ten Years and Solving the Affordable Housing Crisis in Twenty Years (BRC), which completed its work in December of 2007, developed several recommendations, including:

- Pursuing legislation to extend the 20% Program past the sunset of Redevelopment Areas. The remaining 80% of the tax increment would be distributed to cities, counties, and school districts according to the current allocation of property taxes to taxing jurisdictions.

- Seek legislation to increase the per capita allocation for the federal Low Income Housing Tax Credit Program, currently set at $1.95 per person, to a higher amount to increase this funding source.

- Seek legislation to increase the statutory State ceiling for tax credits beyond the $50 million limit.

- Consider incentives for private citizens who donate funding for affordable housing.

- Initiate discussions with local pension funds to interest them in investing locally to support affordable housing

- Consider expanding inclusionary housing and making existing inclusionary housing policies more effective.

Other Ideas to Increase Affordable Housing Financing

In addition to the recommendations that came from the LISC, San Jose State University, and the BRC, the Housing Department has completed two studies in recent years to look at options for an ongoing source of revenue to supplement current funds available and to replace redevelopment tax increment funding when it is no longer available. These studies identified a number of potential sources, but all with challenges that make them difficult to implement. It is a particularly difficult time to consider increasing taxes for affordable housing purposes when the State and local governments are looking to increase taxes and fees to cover general operations. The City of San Jose is faced with significant budget challenges; any potential funding source for affordable housing will have to be considered in light of the City's need to fund vital City services.

The attached chart looks at some of these options.

POTENTIAL REVENUE SOURCES

Revenue Source	Revenue Potential	Nexus to Affordable Housing	Adoption Requirements/Feasibility
Real Property Conveyance Tax	This tax is set at $1.65 per $500 of property value. In FY2007-08, it raised $26.8 million. A .35 increase, bringing the total to $2, would raise $5.7 million.	N/A	Property conveyance taxes are a common source for Housing Trust Funds throughout the nation. In San Jose, there is an existing Real Property Conveyance Tax, which is imposed for specific purposes. To increase this tax, a 2/3rds vote of the electorate would be required. Real estate transaction taxes are opposed by the Realtors Increases to property transfer taxes don't poll well with the voters
Document Recording Fee	The Blue Ribbon Commission estimated that, Countywide, a $10 fee/tax per transaction would create about $4 million annually; a $20 fee /tax per transaction would create about $8 million. This amount may be high given current economic climate (fewer sales and fewer documents being recorded).	TBD	Document recording fees are a common source for Housing Trust Funds in other parts of the nation. However, in California, State law limits the imposition of a Document Recording Fee. A Document Recording fee is a county fee that is imposed to recover the cost of recording documents in a county recorders' office. SB521 (Torlakson), 2006, would have allowed Contra Costa County to increase its document recording fees. AB239 (De Saulnier), 2007 would have allowed Contra Costa and San Mateo Counties to increase their document recording fees. Neither bill was approved. If State legislation was approved, a fee could then be approved by a majority vote of the County Board of Supervisors. This type of fee could be subject to legal challenge. Strongly opposed by the Realtors.
Residential Construction Tax	The City collected $118,000 from this tax in FY 07-08, a more than 50% reduction from prior years. Should this tax be increased, it is unlikely to result in a significant amount of money for affordable housing.	N/A	The City has an existing residential construction tax that is to be used for specified purposes. Increases to the tax, or a revision to the specified purposes, would require a 2/3rds vote of the electorate. The amount of money received from this tax is relatively small given the effort it would take to obtain voter approval.

Revenue Source	Revenue Potential	Nexus to Affordable Housing	Adoption Requirements/Feasibility
Building & Structure Construction Tax	Currently set at 1 ¾% of 88% of construction valuation. Over the past year, this tax generated $9.6 million. An increase to 3% would result in an additional $3 million annually. When the economy picks up this amount would increase.	N/A	The San Jose Municipal Code details the eligible uses—improve roadway conditions on major arterials (Fund 429). Increases to this tax, or a revision to the specified purposes, would require a 2/3rds vote of the electorate
Business Tax	It is unclear how much revenue this tax increase would generate. Currently, the tax is set at $150 per business for up to eight employees, with an additional charge of $18 per employee up to a maximum of $25,000.	N/A	If the City were to consider increasing the business tax for affordable housing purposes, a 2/3rds vote of the electorate would be required. The potential amount of money received from this tax is relatively small given the effort it would take to obtain voter approval
20% Tax Increment	Only Relevant if New Project Areas are Created that would generate additional 20% tax increment. This source is already fully used and committed.	Yes	To create a new project area, blight would need to be determined, and the City would need to take steps to create it, including working with other local entities. This would have an impact on future General Fund revenues as the City's proportionate share of the increased property tax revenue would not be paid to the City's General Fund. Some of the ideas included in the BRC report would increase the amount of 20% funding available (see body of report).
80% Tax Increment	Increase the amount of 80% funds available for housing purposes by an unspecified amount,	Yes	The City's 80% Redevelopment Funds are limited at this time, due to the cap on borrowing, and the fact that much of the 80% increment is committed to debt service. Additionally, the State has recently taken funding from the City's Redevelopment Agency, and has indicated that this "take" may be made permanent (i.e., assessed annually). This is a significant impact on the City's Redevelopment Agency, impacting its ability to continue to fund projects that are a priority of the Mayor and City Council. The City would have to determine how spending more redevelopment money on housing will impact its other priorities—including economic development.
Linkage Fee	A commercial linkage fee charges a per square foot fee on commercial	Yes	As a fee, would require a vote of the local legislative body.

Revenue Source	Revenue Potential	Nexus to Affordable Housing	Adoption Requirements/Feasibility
	development. At $1 per square foot, this would raise an estimated $880,000 annually.		This fee would need to be analyzed to determine whether it meets the legal requirements for the imposition of a development fee. The City is currently incentivizing the development of new commercial space. The imposition of a new fee may serve as a disincentive.
Impact Fee for Industrial Land Conversion	A fee imposed when land is converted from industrial use to residential use	Yes	As a fee, would require a vote of the local legislative body. This fee would need to be analyzed to determine whether it meets the legal requirements for the imposition of a development fee. This could be perceived as an incentive to convert industrial land and may be in conflict with the Employment Lands Framework.
Sales Tax Increase	Sales tax is generally set at 8.25%, of which San Jose gets 1% which is paid to the General Fund, and the remaining 7.25% goes to other government agencies or for specified purposes. Last year, this 1% raised $149 million. Using this same number, an increase of .25% would generate $37 million annually.	N/A	This could result in a large amount of funding for affordable housing. A tax imposed for affordable housing purposes would require a 2/3rds vote of the electorate. The sales tax is a regressive tax, impacting lower-income residents more than people with means.
Parcel Tax	Assess a parcel tax	N/A	A tax would require a 2/3rds vote of the electorate. The City of San Jose has a parcel tax for libraries, which is set at $27 a year for single-family houses and condominiums (and less for other structures), that is expected to generate about $6.7 million this year. This would likely be unpopular with the voters.
General Obligation Bond	Issue GO Bonds	N/A	This has been used successfully as a vehicle to fund affordable housing in other cities, like San Francisco. In San Jose, the voters approved several recent GO bond issues, including a $228 million bond for parks in 2000, a $212 million bond for libraries in 2000, and a $159 million bond for neighborhood security in 2004.

Revenue Source	Revenue Potential	Nexus to Affordable Housing	Adoption Requirements/Feasibility
			GO Bonds are a one-time source of money and may be used only for the acquisition and improvement of real property. It would require a 2/3 vote of the electorate.

Survey of Inclusionary Housing

One-third of California's cities have adopted an inclusionary housing ordinance, and others are in the process of studying the potential for implementation, including San Jose, Los Angeles, and Oakland. Of the State's other large cities, San Diego, San Francisco, and Sacramento all have an adopted inclusionary ordinance. In the Bay Area, 57% of the cities have some form of inclusionary zoning, and in Santa Clara County, ten of 15 cities have working inclusionary zoning ordinances. While Santa Clara County does not have an inclusionary housing ordinance, the neighboring communities of Santa Cruz, Alameda, and San Mateo all do. A significant number of these ordinances were approved since the year 2000.

The publication "*Trends in California Inclusionary Housing Programs*," published by the Northern California Association of Nonprofit Housing in 2007, looked at housing produced through inclusionary programs from 1999 to 2006. This study found that:

(1) More than 80,000 people have affordable housing as a result of inclusionary programs, with more than 29,000 units created between 1999 and 2006.

(2) Most inclusionary housing is integrated into market-rate development, creating socially and economically integrated communities. "As a result, teachers shop in the same grocery stores as the parents of their students, and the elderly are finding safe apartments close to their children and grandchildren."

(3) Inclusionary programs provide housing opportunities for people who are most in need, with more than three-quarters of the units provided serving people with lower-incomes.

As part of the process of studying inclusionary housing, and best practices, staff reviewed inclusionary housing ordinances to gain a better understanding of how other localities have drafted their ordinances. During the course of public outreach, several people suggested that particular jurisdictions had adopted ordinances that worked well, while others had adopted ordinances with provisions that were not favorable.

Attached are four charts that provide information collected on inclusionary ordinances administered by other jurisdictions. The charts show:

(1) Chart D1A-- Highlights the ten cities in Santa Clara that have adopted inclusionary housing ordinances, and includes the following data: compliance type, incentives provided, developer options allowed, and information about in-lieu fees, if offered.

(2) Chart D1B—Highlights the same ten cities in Santa Clara, but includes the following data: the project size threshold for requiring inclusionary units, the percentage inclusionary required, groups targeted, length of affordability, and miscellaneous provisions.

(3) Chart D2A: Highlights other cities in California, as well as several large cities elsewhere in the country, that have adopted inclusionary housing ordinances, and includes the following data: compliance type, incentives provided, developer options allowed, and information about in-lieu fees, if offered.

(4) Chart D2B: Highlights the same cities as in Chart D2a, but includes the following data: the project size threshold for requiring inclusionary units, the percentage inclusionary required, groups targeted, length of affordability, and miscellaneous provisions.

City staff researched more than 30 ordinances seeking to find a model for pressure relief valve, a feature that had been requested by the City Council. However, no example was found.

SURVEY OF CITIES IN SANTA CLARA COUNTY WITH INCLUSIONARY HOUSING
Ten of the fifteen cities in Santa Clara County have Inclusionary Housing Ordinances
(Jurisdiction, County, Compliance Type, Incentives, Developer Options, In-Lieu Fee Structure)

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
Campbell	Santa Clara	Mandatory	Density bonus, flexibility in design and location of units	Off-site, provide financing, land dedication, in-lieu fee,	If project density is six or fewer units per acre, applicant may pay an in-lieu fee. The initial in-lieu fee schedule is set by city council fee resolution so that the fee amounts are not greater than the difference between: (a) the amount of a conventional permanent loan that an inclusionary unit would support based on the affordable rent or sales price for the required inclusionary unit; and (b) the estimated total development cost of prototypical inclusionary units. The City Council adjusts the fee annually. For any year that the City Council does not review the fee amounts, the community development director can adjust the fee based on the construction cost index . In-lieu fees are calculated based on the fee schedule in effect at the time the fee is paid and must be paid prior to issuance of building permits. If building permits are issued for only part of a residential project, the fee amount shall be based only on the number of units then permitted.
Cupertino	Santa Clara	Voluntary	Density bonus, fee deferral, fee reduction, fee waiver, flexible design standards, and subsidies	None	No in-lieu fees
Gilroy	Santa Clara	Mandatory	Density bonus and flexible design standards		Fixed per-unit fee
Los Altos	Santa Clara	Mandatory	Fast tracking processing, fee deferral, fee reduction, fee waiver, and flexible design standards	Conversion to affordable housing	Fixed per unit fee
Los Altos Hills	Santa Clara	*The City of Los Altos Hills does not have an inclusionary housing ordinance.*			
Los Gatos	Santa Clara	Mandatory	None	In-lieu fee	Fee determined by City Council

SURVEY OF CITIES IN SANTA CLARA COUNTY WITH INCLUSIONARY HOUSING
Ten of the fifteen cities in Santa Clara County have Inclusionary Housing Ordinances
(Jurisdiction, County, Compliance Type, Incentives, Developer Options, In-Lieu Fee Structure)

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
Milpitas	Santa Clara	*The City of Milpitas does not have an inclusionary housing ordinance, however, it has a policy that "the City of Milpitas will continue to target the provision of at least 20 percent affordable units within new multifamily residential projects."*			
Monte Sereno	Santa Clara	*The City of Monte Sereno does not have an inclusionary housing ordinance.*			
Morgan Hill	Santa Clara	Voluntary	Density bonus, fast track processing, fee deferral, fee reduction, fee waiver, flexible design standards	In-lieu fee	Fixed per unit fee
Mountain View	Santa Clara	Mandatory	Density bonus	Conversion to affordable housing, in-lieu fee, land dedication	In-lieu fees will be based on a formula involving the difference between the price of market-rate units and the price of below-market rate units
Palo Alto	Santa Clara	Mandatory	Density bonus and other	In-lieu fee, off-site construction, conversion to affordable housing	The fee formula is based on a reasonable estimate of the amount of housing necessary to satisfy ten percent of the demand for low- to moderate-income housing based on the average number of low- to moderate-income employees generated per average household by the average commercial and industrial development.
San Jose	Santa Clara	Mandatory in RdA	None	In-lieu fee, offsite, credit transfers, dedication of land, or combination	An in-lieu fee may be paid as long as it is paid after the issuance of the development permit, but prior to the initial occupancy of the unit. Fee amounts are established in the City Council's annual resolution of fees and charges or as established otherwise by resolution of the City Council.
Santa Clara	Santa Clara	Voluntary	Density bonus, flexible design standards, subsidies, and other	None	No in-lieu fees
Saratoga	Santa Clara	*The City of Saratoga does not have an inclusionary housing ordinance.*			

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
Sunnyvale	Santa Clara	Mandatory	Density bonus, flexible design standards, subsidies, and other	Conversion to affordable housing and in-lieu fee	The in-lieu fee for for-sale units is equal to the difference between the fair market value of the below market rate unit and the below market rate unit price. The in-lieu fee for rental units is calculated as the difference between the market rent for the units and the established below market rent capitalized over fifty-five years. The Consumer Price Index is used to establish the inflation rate and the rental rates from the Sunnyvale vacancy and rent survey are used to calculate the estimated increase in rental rates.

SURVEY OF INCLUSIONARY HOUSING ORDINANCES IN SANTA CLARA COUNTY
Ten of the fifteen cities in Santa Clara County have Inclusionary Housing Ordinances
(Jurisdiction, IH Requirement Threshold, % Production Required, Targeted Groups, Length of Affordability, Miscellaneous)

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Campbell	**Rental/Ownership:** 10 or more units	**Rental/Ownership:** 15%	**Rental/Ownership:** Low- and Moderat- income households	**Rental:** 55 years **Ownership:** 45 years	
Cupertino	**Rental/Ownership**: 5 units	**Rental/Ownership**: fixed formula 10-50%	**Rental/ Ownership**: Very low- and low-income and seniors	**Rental/Ownership**: 10-30 years	A density bonus and an additional concession are available to all housing developments greater than five units if they include at least: 20% of the units to low-income households; or 10% of the units to very low-income; or 50% of the units for senior citizens. City helps set home prices, which must be affordable to households at 120% of area median income, and contracts management of the waitlist and sale of units to a nonprofit.
Gilroy	**Rental/Ownership:** Any project	**Rental/Ownership:** Fixed formula 15%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental:** 55 years **Ownership:** 30 years	Neighborhood District proponents receive the following benefits for on-site construction: ► More points are awarded to projects with higher percentages of affordable units. ► Density bonuses ► Reduction in City development standards (e.g. zero-lot line developments, clustered housing on smaller lots, and smaller unit sizes) ► Reduction in road widths. The City helps with the sale of the IZ units
Los Altos	**Rental/Ownership:** 1 units or 1 lots	**Rental/ Ownership:** Variable formula 10-40%	**Rental/Ownership:** Very low-income, low-income, and moderate-income	Not available	
Los Altos Hills	*The City of Los Altos Hills does not have an inclusionary housing ordinance.*				
Los Gatos	**Rental/Ownership:** 5 units	**Rental/ Ownership:** Variable formula 10-20%	**Rental/Ownership:** Moderate-income	Not available	Sale of IZ units administered by Santa Clara County

SURVEY OF INCLUSIONARY HOUSING ORDINANCES IN SANTA CLARA COUNTY

Ten of the fifteen cities in Santa Clara County have Inclusionary Housing Ordinances

(Jurisdiction, IH Requirement Threshold, % Production Required, Targeted Groups, Length of Affordability, Miscellaneous)

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Milpitas	*The City of Milpitas does not have an inclusionary housing ordinance, however, it has a policy that "the City of Milpitas will continue to target the provision of at least 20 percent affordable units within new multifamily residential projects".*				
Monte Sereno	*The City of Monte Sereno does not have an inclusionary housing ordinance.*				
Morgan Hill	**Rental/Ownership:** 16 units	Fixed formula 5%	**Rental/Ownership:** VL, LI, MOD	**Rental/Ownership:** 45 years	The City sets the sales prices and maintains a waitlist (LI, MOD, Med)
Mountain View	**Rental:** 5 units **Ownership:** 3 units	**Rental:** fixed formula 10% **Ownership:** fixed formula 10%	**Rental:** low-income **Ownership:** moderate-income	**Rental:** 55 years **Ownership:** 55 years	The Below Market Rate requirement applies to new or converted residential developments with three or more ownership units; five or more rental units; or mixed projects of six or more residential units. The City works with developers to set price. Interested list of buyers maintained by Housing Authority
Palo Alto	**Rental/Ownership:** 10 units	**Rental/Ownership:** fixed formula 15%	**Rental/Ownership:** Low- and Moderate-income	**Rental/Ownership**: 59 years	City works with developers. The units must be affordable to 80-100% of area median income. Program administered by Palo Alto Housing Corporation.
San Jose	**Rental/Ownership:** 10 units	**Rental:** 20% **Ownership:** 20% or 15%	**Rental:** 8% Very Low-Income, 12% Low-Income **Ownership:** 20% Moderate or 15% (6% very low-income, 9% low- or moderate-income)	**Rental:** 55 years **Ownership**: 45 years	
Santa Clara	**Rental/Ownership:** 5 units	**Rental/Ownership**: variable formula 10-50%	**Rental/Ownership:** Very low- and low-income and seniors	**Rental/Ownership:** 10-30 years	Neighborhood Housing Silicon Valley sells the units for the City.
Saratoga	*The City of Saratoga does not have an inclusionary housing ordinance.*				

SURVEY OF INCLUSIONARY HOUSING ORDINANCES IN SANTA CLARA COUNTY
Ten of the fifteen cities in Santa Clara County have Inclusionary Housing Ordinances
(Jurisdiction, IH Requirement Threshold, % Production Required, Targeted Groups, Length of Affordability, Miscellaneous)

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Sunnyvale	**Rental/Ownership:** 9 units or 9 lots	**Rental/Ownership:** variable formula 10-50%	**Rental/Ownership:** Very low-, low-, moderate-income, and seniors	**Rental:** 55 years **Ownership**: 30-55 years	The City sets the unit prices and maintains a waitlist. Buyers must be between 70-120% AMI.

SURVEY OF OTHER CITIES WITH INCLUSIONARY HOUSING
(Jurisdiction, County, Compliance Type, Incentives, Developer Options, In-Lieu Fee Structure)

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
Boston		Mandatory	Incentives are subject to negotiation. City provides projects located in the financial district with a height bonus, no cost offsets are provided to covered developments.	In-lieu fee, design flexibility, off-site construction (if units are built off-site the percentage set-aside increases to 15%).	In-lieu fee set at $97,000 per unit for 15% of proposed units. This fee is defined as "the average total public subsidy per new construction affordable housing unit permitted by the City of Boston for the previous calendar year." The fee is adjusted annually to reflect changes in market conditions although it has only been updated once since 2000 (the fee was originally set at $52,000 but was increased to $97,000 in February 2005).
Burlingame	San Mateo	Mandatory	Flexible design standards	Conversion to affordable housing	No in-lieu fees
Chicago		Mandatory	Floor area bonuses	Payment of in-lieu fees	Fee set at $100,000 per required unit.
Colma	San Mateo	Mandatory	Clustering of IH units	In-lieu, land dedication, off-site construction	In-lieu fees are determined annually by the City Manager. At a minimum, they cover the difference between the anticipated affordable sales price or rent and costs of construction.
Denver		Mandatory	Density bonus, $5,000 reimbursement, parking reduction, expedited processing	Off-site, in-lieu fee	Fee structure is based on the cost to replace the unit.
Dublin	Alameda	Mandatory	Fee deferral, flexible design standards, and other.	Credit transfer, in-lieu fee, land dedication, and off-site construction	While the Regulations require that 12.5% of the units in the project be Inclusionary Units, they permit the developer to meet 40% of this obligation by paying an in-lieu fee. The amount of the in-lieu fee is set by resolution of the City Council and is adjusted annually to reflect the greater of the percentage change either in a) the Bay Area Urban Consumer Price Index (CPI) as of March of each year, or b) the United States Department of Housing and Urban Development (HUD) Fair Market Rent limits for the Oakland Primary Metropolitan Statistical Area (PMSA) that are in effect at the time. The fee as of July 1, 2004 is $82,466 per Inclusionary Unit. The entire in-lieu fee amount for the project is due and payable at issuance of first building permit in the project.

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
East Palo Alto	San Mateo	Mandatory	None	In-lieu fee and off-site construction	If the residential development contains four or fewer units, an in-lieu fee is collected. The fee is paid upon issuance of building permits for market-rate units or secured at that time by a contract, as determined by the City Manager. If building permits are issued for only part of a residential project, the fee amount is based on the number of permitted market-rate units. The amount of the fee is a per square foot fee established by the Master Fee Schedule and applied to the aggregate building area of all the market-rate homes in question, including the building footprint, plus additional square footage provided by additional stories and a porch/deck minus any garage or other parking area. In the event the fee required by this provision has not been adopted, a fee of $10.60 per square foot of such building area shall be required.
Foster City	San Mateo	Mandatory	Density bonus, fee deferral, fee reduction, fee waiver, flexible design standards, and subsides	Off-site construction	No in-lieu fees
Fremont	Alameda	Mandatory	Density bonus, fee deferral, fee reduction, and fee waiver	In-lieu fee, land dedication, off-site construction	Fixed per-unit fee Established by resolution of City Council.
Irvine	Orange County	Mandatory	Density bonus, fast-track processing, fee reduction, fee waiver, flexible design standards	Conversion to affordable housing, credit-transfer, in-lieu fee, land dedication, off-site construction	Fee structure not available
Livermore	Alameda	Mandatory	Density bonus and other.	Credit transfer, in-lieu fee, land dedication, and off-site construction	Fee structure not available
Los Angeles (City and County)	Los Angeles	*The City and County of Los Angeles do not currently have an inclusionary ordinance, however, the City is currently considering undergoing a similar effort as San Jose to create an inclusionary ordinance.*			

ATTACHMENT D2-A
SURVEY OF OTHER CITIES WITH INCLUSIONARY HOUSING
(Jurisdiction, County, Compliance Type, Incentives, Developer Options, In-Lieu Fee Structure)

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
Menlo Park	San Mateo	Mandatory	Density bonus	In-lieu fee, off-site construction	Fee determined by number of units.
Novato	Marin	Mandatory	Density bonus, fee deferral, fee reduction, fee waiver, flexible design standards, subsidies, other	credit transfer, in-lieu fee, land dedication, and off-site construction	The amount of in-lieu fees is established by resolution of the council and is adjusted to reflect changes in the Consumer Price Index (CPI), and may additionally be adjusted for changing conditions in the City.
Oakland	Alameda	*The City of Oakland does not currently have an inclusionary housing ordinance. The City is currently considering an inclusionary ordinance.*			
Orange County	Orange County	Orange County has a voluntary program. The County previously had a mandatory ordinance. The County attempts to negotiate for affordable housing units on the few remaining vacant parcels in the County that receive development proposals. According to a report produced by the California Coalition for Rural Housing in 1994, this switch in enforcement led to a dramatic drop in the production of affordable housing. The mandatory program produced 6,389 units of affordable housing in four years (1979-1983), while the voluntary program has produced just 952 units over eleven years (1983-1994).			
Pleasanton	Alameda	Mandatory	Fee deferral, fee reduction, fee waiver, flexible design standards, and other.	Credit transfer, in-lieu fee, land dedication, and off-site construction.	Fixed per-unit fee- Lower Income Housing Fee Option.
Sacramento	Yolo	Mandatory	Credit Transfer, land dedication, and off-site construction.	Density bonus, fee deferral, fee reduction, fast tracking, fee waiver, flexible design standards, subsidies, and other	No in-lieu fees
San Carlos	San Mateo	Mandatory	Density bonus, flexible design standards, subsidies, and other.	Off site construction	No in-lieu fees
San Diego	San Diego	Mandatory	Density bonus, fast-track processing, fee reduction	Credit transfer, in-lieu fee, off-site construction	The amount of the in-lieu fee is the sum of the applicable per square foot charge multiplied by the aggregate gross floor area of all of the units within the development.

SURVEY OF OTHER CITIES WITH INCLUSIONARY HOUSING
(Jurisdiction, County, Compliance Type, Incentives, Developer Options, In-Lieu Fee Structure)

Jurisdiction	County	Compliance Type	Incentives	Developer Options	In-Lieu Fee Structure
San Francisco	San Francisco	Mandatory	Conversion to affordable housing, in-lieu fee, and off site construction.	Flexible design standards	In-lieu fee methodology provided for on-site and off-site developments.
San Mateo	San Mateo	Mandatory	Conversion to affordable housing and off-site construction.	Density bonus, flexible design standards, and other	No in-lieu fees

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Boston	**Rental/Ownership**: 10 units	**Rental/Ownership**: 13%	**Rental/Ownership:** 1/2 at 80% AMI (below $66,000), 1/2 at 80% to 120% AMI ($66,000 to $99,000)	**Rental/Ownership:** Perpetuity	Ordinance applies to developments: seeking zoning relief built on property owned by the City, or financed by the City.
Burlingame	**Rental/Ownership**: 4 units	**Rental/Ownership:** Fixed formula 10%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental/Ownership:** 10-30 years	No density bonus because the City does not have density limits within the areas the policy applies to. Policy also applies to condo conversions.
Chicago	**Rental/Ownership:** 10 units	**Rental/Ownership** 10% or 20% if City assistance provided	**Ownership:** 100% of median-income **Rental:** 60% of median-income and below	**Rental/Ownership:** 30 years	Ordinance applies to developments where there is a zoning change, that are built on City-owned land, that are planned unit developments (except for development outside of the downtown area that do not obtain residential density increases), and those projects receiving financial assistance from the City.
Colma	**Rental/Ownership:** 5 units	**Rental/Ownership:** Fixed formula 20%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental:** 55 years **Ownership:** 45 years	
Denver	**Ownership only:** Rental is illegal 30 units	**Ownership:** 10%	**Ownership:** Low-income but goes up to 95% for high rise developments	**Ownership:** 15 years	
Dublin	**Rental/Ownership:** 20 units	**Rental/Ownership:** Fixed formula 12%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental/Ownership:** 55 years	Inclusionary Units must be constructed concurrently with the market-rate units, have a similar range of bedrooms, be indistinguishable by design or materials, and be reasonably dispersed. Inclusionary Obligations must be finalized prior to recordation of a final map for the development. Assistance is provided with selling the units.
East Palo Alto	**Rental/Ownership:** Any project	**Rental/Ownership:** Fixed formula 20%	**Rental/Ownership:** Extremely low-, very low-, and low-income	**Rental:** 59 years Ownership: 99 years	Affordable units shall be comparable to market-rate units in size, number of bedrooms, exterior appearance, interior features, overall quality of construction and all other respects. Affordable units shall be dispersed throughout the project in a manner acceptable to the City.

SURVEY OF OTHER CITIES WITH INCLUSIONARY HOUSING
(Jurisdiction, IH Requirement Threshold, % Production Required, Targeted Groups, Length of Affordability, Miscellaneous)

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Foster City	**Rental/Ownership:** 10 units	**Rental/Ownership:** Variable formula 10-50%	**Rental/Ownership:** Very low-, low-, moderate-income, and seniors.	**Rental/Ownership:** 35 years	Developers sell for-sale units.
Fremont	**Rental/Ownership:** 7 units or 7 lots	**Rental/Ownership:** Fixed formula 15%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental:** life of project/unit **Ownership:** 30 years	The City sets the sales price of the IZ units
Irvine	**Rental/Ownership:** Any project	**Rental/Ownership:** 15%, fixed formula.	**Rental:** Very low, Low-, and Moderate-income, seniors **Ownership:** Very-low, Low, and moderate income	**Rental/Ownership:** 30 years	
Livermore	**Rental/Ownership:** 1 unit	**Rental/Ownership:** Variable formula 10-20%	**Rental:** Very low- and low-income **Ownership:** Low and moderate-income	**Rental/Ownership:** 30-55 years	
Los Angeles (City and County)	*The City and County of Los Angeles do not currently have an inclusionary ordinance, however, the City is currently considering undergoing a similar effort as San Jose to create an inclusionary ordinance.*				
Menlo Park	**Rental/Ownership:** 5 units or 1 lot	**Rental/Ownership:** 10-15%	**Rental/Ownership:** VL, LI, MOD	Not available	City maintains a wait list and sets sales price
Novato	**Rental/Ownership:** 1 unit	**Rental:** 10-50% **Ownership:** 5-50%	**Rental:** VL, LI, Senior **Ownership**: VL, LI, MOD, Senior	**Rental/Ownership:** In perpetuity	Units sold by Hamilton Housing.
Oakland	*The City of Oakland does not currently have an inclusionary housing ordinance. The City is currently considering an inclusionary ordinance.*				

SURVEY OF OTHER CITIES WITH INCLUSIONARY HOUSING
(Jurisdiction, IH Requirement Threshold, % Production Required, Targeted Groups, Length of Affordability, Miscellaneous)

Jurisdiction	IH Requirement Threshold	% Production Required	Targeted Groups	Length of Affordability	Miscellaneous
Orange County	Orange County has a voluntary program. The County previously had a mandatory ordinance. The County attempts to negotiate for affordable housing units on the few remaining vacant parcels in the County that receive development proposals. According to a report produced by the California Coalition for Rural Housing in 1994, this switch in enforcement led to a dramatic drop in the production of affordable housing. The mandatory program produced 6,389 units of affordable housing in four years (1979-1983), while the voluntary program has produced just 952 units over eleven years (1983-1994).				
Pleasanton	**Rental/Ownership:** 15 units	**Rental/Ownership:** Variable formula 15-20%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental/Ownership:** In perpetuity	City helps set sales price, Sale of units is handled by Tri-Valley Housing Opportunity Center.
Sacramento	**Rental/Housing:** 10 units	**Rental/Ownership:** Fixed formula 15%	**Rental/Ownership:** Very low- and low-income	**Rental/Ownership:** 30 years	Sacramento Housing Redevelopment Agency manages the affordable housing program.
San Carlos	**Rental/Ownership:** 7 units	**Rental/Ownership:** Fixed formula 15%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental/Ownership:** Life of project/unit	City sets sale price
San Diego	**Rental/Ownership:** 2 units	**Rental/Ownership:** fixed formula, 10%	**Rental units:** low-income **Ownership units:** moderate-income	**Rental units:** 55 years **Ownership:** not available	
San Francisco	**Rental/Ownership:** 5 units	**Rental/Ownership:** Variable formula 10-17%	**Rental/Ownership:** Very low-, low-, and moderate-income	**Rental/Ownership:** Life of project/unit	The City partners with several agencies to help sell the IZ units.
San Mateo	**Rental/Ownership:** 11 units or 11 lots	**Rental/Ownership:** Fixed formula 10%	**Rental:** Low-income **Ownership:** Moderate-income	**Rental:** in perpetuity **Ownership:** 45 years	The density bonus language is out of compliance with the new density bonus law and thus is overridden by the new language. Pricing of for-sale units are set at 110-120% of area median income; buyers can't spend more than 30-35% of gross income on their mortgage.

Literature Review of Inclusionary Housing Programs

There have been few studies that have looked at the economic effects of inclusionary housing. This in large part is due to the fact that it can be difficult to control for all the factors that affect a housing market, or to attribute the outcome of such things as housing prices or housing starts to one factor. In addition, it is difficult to obtain accurate data on the adoption and characteristics of inclusionary zoning programs across jurisdictions and over time, and to track the number of units produced under these programs.

Housing Department staff has identified 58 studies related to inclusionary housing that have been produced since 1998. The State Department of Housing and Community Development's website, http://www.hcd.ca.gov/hpd/inclusion.html, contains a thorough compendium of these studies. Only a few of the 58 studies looked at the production and economic impacts of inclusionary housing policies or programs, and even fewer looked at programs in California. Rather, most studies examine or analyze best practices and compare attributes of various inclusionary policies.

Most of these studies have been completed or were financed by advocates in favor of inclusionary housing or those opposed to inclusionary housing, so the stated findings have tended to favor ideological positions. Advocates praise inclusionary for the production that ordinances have achieved and eschew any findings that inclusionary programs have an impact on prices or home values. Opponents argue that inclusionary programs have produced few units, that they result in increased prices for market-rate housing, and that they unfairly target one industry.

One thing that is certain is that all inclusionary programs are not the same, and the design of an ordinance can determine whether it is successful or not. While some communities have adopted "inclusionary" programs that are actually exclusionary, and intended to deter development, the majority of communities have adopted ordinances to provide an additional tool to meet their need for increased affordable housing.

The publication that we have used in our efforts to design an ordinance for the City of San Jose is called "*On Common Ground*," a July 2005 publication released by the Nonprofit Housing Association of Northern California (NPH) and the Home Builders Association of Northern California (HBANC). This report sought to highlight best practices and key principles for jurisdictions considering the adoption of inclusionary ordinances.

While NPH and HBANC hold different views about the merits of inclusionary programs, they did agree on a number of important issues:

(1) Increasing the housing supply is critical to addressing the current lack of affordable housing in the Bay Area;

(2) A broader commitment from the public and private sectors is needed to ensure that housing is affordable to people with modest incomes;

(3) There is a need to maximize limited resources that are currently available to produce affordable housing opportunities;

(4) A successful and effective program is flexible and adaptive to local market forces;

(5) Market-rate builders should be provided a choice of several options for meeting the inclusionary requirement; and

(6) Local governments should provide offsets to the development community to compensate for this requirement.

Of those studies that have examined the economic impacts of inclusionary housing, only a few have focused on California and the Bay Area. Highlighted below are seven studies that focus on the production and economic impacts of inclusionary zoning policies in California, and in particular the Bay Area.

HOUSING MARKET IMPACTS OF INCLUSIONARY ZONING / Knaap, Gerrit-Jan; Bento, Antonio; Lowe, Scott -- College Park, MD: National Center for Smart Growth Research and Education, 2008, 21 p.
Available full text via the World Wide Web:
http://www.smartgrowth.umd.edu/research/pdf/KnaapBentoLowe-InclusionaryHousing.pdf

This study looks at the effects of inclusionary on housing prices and starts. It estimates the effects of inclusionary zoning policies on single family housing prices, single family and multifamily housing starts, including the size of single family housing units in California over the period from 1988 to 2005.

The study finds inclusionary zoning policies in cities with existing or new programs during the study period did not experience a significant reduction in the rate of single-family housing starts, but did experience a marginally significant increase in multifamily housing starts. More specifically, the study found that in municipalities with inclusionary housing programs, the share of multifamily housing starts increased seven percent. The study further concludes that housing prices in cities that adopted inclusionary zoning increased about 2-3 percent faster than cities that did not adopt such policies. In addition, the study indicates that housing price effects were greater in higher priced housing markets than in lower priced markets. Lower priced markets (homes selling less than $187,000) decreased by 0.8 percent while housing that sold for more than $187,000 increased by 5.0 percent. The study opines that housing producers did not in general respond to inclusionary requirements by slowing the rate of single family housing construction but did pass the increase in production costs on to housing consumers. Finally, the study states that the size of market rate houses in cities that adopted inclusionary zoning increased more slowly than in cities without such programs. The study finds that houses in cities with inclusionary zoning programs were approximately 48 square feet smaller than in cities without inclusionary programs.

AFFORDABLE BY CHOICE: TRENDS IN CALIFORNIA INCLUSIONARY HOUSING PROGRAMS / Jacobus, Rick; Hickey, Maureen -- San Francisco, CA: Non-Profit Housing Association of Northern California (NPH), 2007, 45 p.
Available for purchase via the World Wide Web:
http://www.nonprofithousing.org/knowledgebank/publications/default.aspx

The study looked at housing produced through inclusionary programs from January 1999 through June 2006. The study found that nearly one-third of California jurisdictions now have inclusionary programs. In all, the study identified 170 jurisdictions with inclusionary programs, a significant number of which were adopted in the past few years.

The authors claim that success of inclusionary housing in the Bay Area is evidenced by the fact that more than 80,000 Californians have been housed through inclusionary programs. Since 1999, inclusionary programs have created an estimated 29,281 affordable units Statewide. The study additionally identifies that a majority of housing created through inclusionary policies is built along with market-rate units. Additionally, the study indicates that nearly three-quarters of the housing produced through inclusionary programs is affordable to people with some of the lowest incomes.

THE EFFECTS OF INCLUSIONARY ZONING ON LOCAL HOUSING MARKETS: LESSONS FROM THE SAN FRANCISCO, WASHINGTON DC AND SUBURBAN BOSTON AREAS / Schuetz, Jenny, et al. / Furman Center for Real Estate and Urban Policy -- Washington, DC: National Housing Conference, November 2007, 102 p.
http://www.nhc.org/pdf/pub_chp_iz_08.pdf

The study addressed two empirical questions—(1) have inclusionary programs had the effect of restricting the supply of market-rate housing and increasing housing costs in the jurisdictions adopting inclusionary; and (2) have inclusionary programs been successful at producing affordable units?

The study compared the effects of inclusionary in three regions—the San Francisco Bay Area, suburban Boston, and the Washington D.C region. The three regions had significant differences. The inclusionary programs in the San Francisco region were established earlier, were more likely to be mandatory, and were more broadly applicable to different types and sizes of developments than the programs in suburban Boston and the Washington D.C region. Additionally, the study found that jurisdictions were more likely to adopt an inclusionary program when they were larger and more affluent; had a larger number of neighboring jurisdictions with inclusionary; and had adopted other land use regulations.

Additionally, the study found that in the San Francisco area almost all jurisdictions produced some affordable units. As for the region as a whole, inclusionary programs produced 9,154 affordable units (as of 2004).

Additionally, the study concluded that inclusionary impacted production and prices of market-rate housing in the three regions differently. In the San Francisco area, there was no evidence that inclusionary impacted either the prices or production of single-family houses. Finally, the

study suggested a number of considerations that jurisdictions should explore when debating whether or not to adopt inclusionary**.**

THE BUILDER'S PERSPECTIVE ON INCLUSIONARY ZONING / Tombari, Edward A. -- Washington, DC: National Association of Home Builders, 2005, 19 p. (Smart Growth, Smart Choices Series)
Available full text via the World Wide Web:
http://www.nahb.org/fileUpload_details.aspx?contentID=50726

The study examines inclusionary programs in the San Francisco, Los Angeles, Washington, D.C., Boston and Denver metropolitan regions. Related to San Francisco, the study finds that based on the jobs created by the expanding Bay Area economy, approximately 24,217 "affordable" housing units per year are needed to house workers who have been added to the economy. In 30 years, the study indicated that 27 participating municipalities in the Bay Area created 6,840 affordable units through inclusionary zoning requirements, or roughly 28% of the annual affordable housing need. At the same time, the study provided a calculation that theorized that due to inclusionary zoning requirements, the San Francisco Bay area lost a total of $2.2 billion in home value equity (lost home value equity equals the market value price less the below market value price set by government) that could have been taxed by local government for the social good or created additional wealth among the residents of San Francisco Bay.

HOW DOES INCLUSIONARY HOUSING WORK?: A profile of seven Southern California cities / Los Angeles, CA: Southern California Association of Non-Profit Housing, December 2005, 10 p.
Available full text via the World Wide Web:
http://www.scanph.org/files/IZ.Guide_.pdf

The Southern California Association of Non Profit Housing (SCANPH) researched seven Southern California cities that have implemented inclusionary programs (Brea, Irvine, Oxnard, Pasadena, Port Huemene, San Clemente, and Santa Paula) to get information about the productivity of their policies. The study analyzed the inclusionary zoning codes for each of these cities, and spoke directly to city planners and local developers to get an in depth understanding of the specific planning, landuse, and political factors that influence the productivity of the inclusionary housing ordinance in each city. The study also looked at how population, land availability, and overall housing development influence the productivity of the inclusionary housing in these cities. The study arrives at three major findings: 1) inclusionary has not reduced overall housing construction in the cities studied. 2) Inclusionary housing policies are effective in producing affordable units that would not otherwise be developed and in providing funding for affordable housing that would not otherwise be available. 3) Factors that influence the effectiveness of a jurisdiction's inclusionary policy include: growth in population and development, land availability, land use trends, the contents, stringency, clarity and accessibility of an inclusionary housing policy, staff support, and political will.

HOUSING SUPPLY AND AFFORDABILITY: Do affordable housing mandates work?/ Powell, Benjamin; Stringham, Edward -- Los Angeles, CA: Reason Public Policy Institute (RPPI), 2004, 48 p. (RPPI Policy Study No. 318)
Available full text via the World Wide Web: http://www.rppi.org/ps318.pdf

The authors of this study looked at 50 jurisdictions throughout the Bay Area and conclude that inclusionary zoning has failed to produce a significant number of affordable homes. The authors find that even the few inclusionary zoning units produced have cost builders, homeowners, and governments by restricting the supply of new homes and driving up the price of both newly constructed market-rate homes and the existing stock of homes. Additionally, they state that inclusionary zoning makes housing less affordable. Specifically, the study indicates that the 50 Bay Area cities with inclusionary zoning have produced fewer than 7,000 affordable units. The study found that in one fourth of the jurisdictions, the cost is greater than $500,000 per unit, and the cost of inclusionary zoning in the average jurisdiction is $45 million, bringing the total cost for all inclusionary units in the Bay Area to date to $2.2 billion. The study estimated that inclusionary zoning causes the price of new homes in the median city to increase by $22,000 to $44,000. In high market-rate cities such as Cupertino, Los Altos, Palo Alto, Portola Valley, and Tiburon the cost was more than $100,000 to the price of each new home. The authors further note that in the 45 cities where data was available, new housing production decreased by 31% the year after cities adopted inclusionary zoning programs.

In conclusion, the study suggests because inclusionary zoning restricts resale values for a number of years, the loss in annual tax revenue lost to Bay Area governments would equal about $553 million.

POLICY CLAIMS WITH WEAK EVIDENCE: A critique of the Reason Foundation Study on Inclusionary Housing Policy in the San Francisco Bay Area / Basolo, Victoria; Calavita, Nico -- Irvine, CA: University of California at Irvine, 2004, 15 p.
Available full text via the World Wide Web:
http://www.nonprofithousing.org/actioncenter/campaigns/download/IH_countering_critics.pdf

This study analyzed the Reason Foundation study mentioned above and concluded that the study had a narrow scope of research, flawed research design, severe data limitations, and several weaknesses in the analysis of inclusionary housing ordinances. The purpose of this critique was to assess the quality of the research and note its major weaknesses, consider the reasonableness of claims based on the research results, and recommend a different path for empirical work on Inclusionary Housing policies.

Specifically, the reasearchers concluded that the research design only looked at cities with inclusionary housing ordinances and therefore did not compare this data with cities without ordinances. As a result, it was impossible to make any conclusions whether any decline in housing production in localities with inclusionary housing ordinances was due to the policy itself or part of an overall downward trend in housing production due to other economic factors. The researchers found that the Reason study utilized incomplete information for 17 of the 50 cities listed and used the average of the remaining 33 cities to fill in the incomplete information.

Also, the researchers found that, in determining the cost of Inclusionary Housing, the Reason study only looked at homeownership, though a large number of units created through inclusionary ordinances are rental units. Other factors the authors found to be problemmatic included: an assumption that in all cases the developer would incorporate the units in a

development; that the affordable units will cost the same as the market units to build; that there are no incentives and subsidies available to the developer; and that developers do not access any options that might reduce their costs.