Affordable Housing Funding Landscape & Local Best Practices

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Cities Association of Santa Clara County and Housing Trust Silicon Valley

Raania Mohsen

Executive Director of Cities Association of Santa Clara County

Kevin Zwick

CEO, Housing Trust Silicon Valley

Shannon McDonald

Public Policy Intern, Housing Trust Silicon Valley

CITIES ASSOCIATION

OF SANTA CLARA COUNTY

Housing Trust

Silicon Valley

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Introduction

In light of the dissolution of Redevelopment Agencies and its impact on cities, in May 2013, the Cities Association of Santa Clara County held its annual membership meeting at Microsoft in Mountain View, CA to review the current state of affordable housing. The objective of the meeting was to explore alternative sources of funding, identify potential legislation and advocacy opportunities, and highlight new home designs that can help cities meet the challenges of affordable housing.

At the meeting Cities Association members and officials heard from local housing officials, developers, advocates, and elected officials on both the current challenges to affordable housing development and a variety of strategies that can be potentially used to increase affordability of various housing types. As a follow-up to the meeting, the Cities Association and Housing Trust Silicon Valley agreed to partner and produce a white paper on the state of affordable housing in Santa Clara County. The objective of the White Paper is to quantify and compare cities' funds available for affordable housing both before and after the dissolution of RDAs, as well as identify the best practices of cities implemented throughout the region used to fund affordable housing in a post-Redevelopment world.

"Affordable Housing" has many meanings and depends on the context. Generally, affordable housing refers to any housing type that is affordable to its occupant. For rental housing, this is typically no more than 30% of the renter's income for his or her housing and utility costs. For homeowners, it is no more than 38% of the owner's income for his or her combined ownership costs of principal and interest of a mortgage, property tax, and homeowners insurance. However, Affordable Housing also typically refers to a specific property type – housing that is subsidized by a local government in return for affordability restrictions requiring the units to house people at different income levels at housing costs affordable to them. This can either be multifamily rental housing or for-sale condominiums or single-family homes.

For the purpose of this White Paper, we will only be looking at one type of affordable housing – subsidized multifamily rental housing affordable to people earning primarily 50% or less of the area median income, see income limits summarized in Table 1. Such housing is developed and owned by for-profit and non-profit affordable housing companies (i.e. Charities Housing, Eden Housing, Mid Pen Housing, ROEM, CORE) and requires a local investment of financing in the form of a deferred interest and deferred payment (or residual receipts) loan from a city, which then gets leveraged with private financing, private equity from low income housing tax credits, state housing loans, and other funding sources. This housing typically rents between \$300 - \$1400 for different unit sizes and according to a household's income, as compared to the average rent of \$2,467 for a 2-bedroom apartment in Santa Clara County in the third quarter 2013, which was the highest rental rate in the State according to RealFacts[1] and represents annual increase of 8.1%.

Table 1: Santa Clara County Income Limits, 2013

Income Category	**1 Person HH**	**2 Person HH**	**3 Person HH**	**4 Person HH**
Extremely Low (30%)	\$22,300	\$25,500	\$28,650	\$31,850
Very Low (50%)	\$37,150	\$42,450	\$47,750	\$53,050
Lower (80%)	\$59,400	\$67,900	\$76,400	\$84,900
Median	\$73,850	\$84,400	\$95,950	\$105,500
Moderate (120%)	\$88,600	\$101,300	\$113,950	\$126,600

Source: California Department of Housing and Community Development

[1] http://www.bizjournals.com/sanjose/news/2013/07/19/average-rent-now-2128-in-santa-clara.html

Housing Need

In the current landscape of high housing costs, high rents, and declining funding there is a strong need for the increase and preservation of affordable housing. This need is recognized by the annual Paycheck to Paycheck report which ranks San Jose as the 4th most expensive city for renters[2]. The National Low Income Housing Association reports that an hourly wage of $30.96 is needed to rent a two bedroom apartment in the San Jose metropolitan area according to their annual 2013 Out of Reach report[3]. Yet, in Santa Clara County, the average hourly wage for renters is $17.99[4] while the minimum wage is only $10 in San Jose and generally $8 in other cities, which will not rise to $10 until January 1, 2016. This means that entry into the housing market is out of reach for many households in Santa Clara County as 13.6% of renter households are extremely low income and 46.9% are lower income according to the 2010 U.S. Census Bureau[5].

Santa Clara County further identifies a need for affordable housing as many households experience cost burdens and/or overcrowding. According to the Department of Housing and Urban Development (HUD), a cost burden occurs if a household "spends more than 30 percent of its gross income on housing-related costs" while a severe cost burden occurs if a household spends "more than 50 percent of their income on housing costs"[6]. In Santa Clara County 44% of renters pay over 30% and 17.7% of renters pay over 50%[7] in housing costs. Overcrowding as defined by the U.S. Census Bureau is more than one person per room not including bathrooms and kitchens. Overcrowding is a health and safety concern as pressure is placed on the housing stock and occupants are forced to live in inadequate housing due to a lack of affordable supply. Overcrowding is experienced by 7.1% of Santa Clara County households according to 2010 U.S. Census Bureau data. In addition, homelessness has increased in the County, despite significant efforts to house the chronically homeless[8]. Also there is greater insecurity for lower and moderate income households due to the recent economic downturn – many people have exhausted their savings and are now vulnerable to any crisis (health, reduction in house, lost job).

The numbers above address the existing shortage; but it is also important to stress the growing need for affordable housing. Following state law to address the housing supply deficiency, the Association of Bay Area Governments (ABAG) develops a Regional Housing Need Allocation (RHNA) every eight years to assign each jurisdiction with its fair share of housing need. The recently finalized 2014-2022 RHNA numbers determines a total need of 58,836 housing units for Santa Clara County[9]. That number includes 16,158 units needed for very low income households, 9,542 units needed for low income households, 10,636 units needed for moderate income households and 22,500 units needed for above moderate income households. Though jurisdictions often struggle to meet the number of housing units allocated, municipalities are required to periodically revise the Housing Elements component in their General Plans in order to establish sufficient zoning capacity to meet their RHNA goals.

It is important to note that ABAG projects that over the next 25 years 57% of all household growth in the Bay Area will consist of very-low and low income households. The State's Employment Development Department projects that more than half of the jobs created in the next five years in Santa Clara County will pay $11 or less. In addition, much of the growth is expected to be with senior households.

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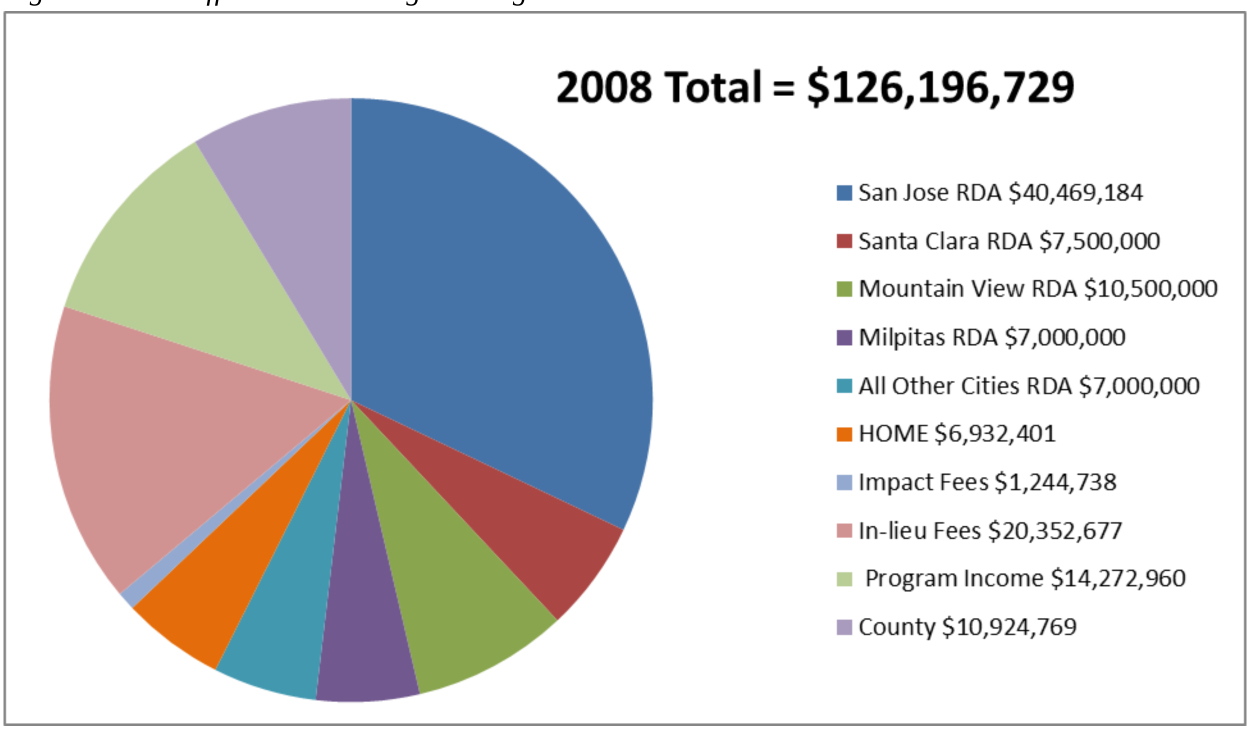
[2] http://www.nhc.org/media/files/Rankings_Rental_2013.pdf
[3] http://nlihc.org/sites/default/files/oor/2013_OOR.pdf
[4] http://nlihc.org/sites/default/files/oor/2013_OOR.pdf
[5] http://www.hacsc.org/PDFs/Misc/FINAL_-_Housing_Needs_Assessment_201307.pdf
[6] http://www.hacsc.org/PDFs/Misc/FINAL_-_Housing_Needs_Assessment_201307.pdf
[7] http://www.hacsc.org/PDFs/Misc/FINAL_-_Housing_Needs_Assessment_201307.pdf
[8]http://www.sccgov.org/sites/mhd/Services/RCare/Documents/Housing/%2713%20Homeless%20Census%20and%20Survey%20Santa%20Clara%206%2028%2013%20FINAL.pdf
[9] http://www.abag.ca.gov/abag/events/agendas/e071813a-Item%206.B.,%20RHNA%20Adoption.pdf

Where We Were in 2008

In order to appreciate the lack of funding for affordable housing today it is informative to review funds that were locally available just a few years ago in 2008. This was the last good year in affordable housing funding before the decimation of HOME (which is federal grant funding that assists with the purchase, rehabilitation, or building of affordable housing) and the loss of Redevelopment money. At that time there was no discussion of the possibility of losing funding which has now become a reality of affordable housing. In 2008, the 15 member cities of the Cities Association and the County of Santa Clara, had available to them a little over $126 Million for affordable housing development. Not all of those funds could be used on new developments; some of this money was used to pay existing housing bonds issued by cities or was already committed to affordable housing developments. Yet, at a general level, this was the amount of committed funds for affordable housing in that year.

The largest source of funds was the Low-Moderate set-aside funds from Redevelopment (RDA). The City of San Jose's RDA had $40,000,000 a year for affordable housing. The cities of Santa Clara, Morgan Hill, Milpitas, Los Gatos, Campbell, Cupertino, and Mountain View had $32,000,000 combined. The federally funded HOME program provided $4,395,455 to the City of San Jose and $2,536,946 to the County and other cities in 2008. The City of San Jose also had an additional $14,122,960 from program income which is interest from housing loans as well as multifamily loan repayments. The Stanford Affordable Housing Fund, which are in-lieu payments made by developers for each 11,763 square feet of academic development built, had collected almost $10,000,000 by then (and started making loans in 2010). Just over $1,000,000 were collected in commercial impact fees in various cities. See Figure 1 for details of the funding sources available in 2008. Assuming an average affordable housing apartment requires a local subsidy of $150,000 per unit, this $126,000,000 had the potential to support the development of 840 units of affordable housing per year.

Figure 1: 2008 Affordable Housing Funding



Source: Data provided by cities; chart prepared by Housing Trust Silicon Valley

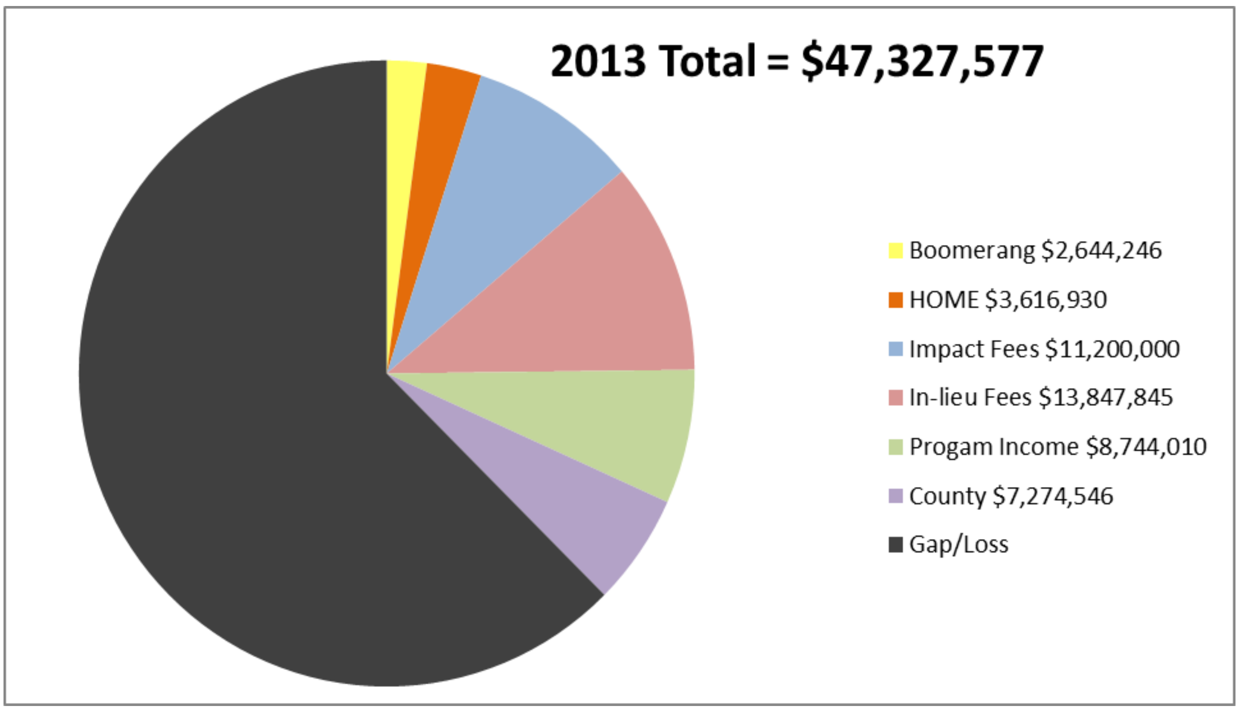
Current Funding Landscape

Today, the funding landscape for affordable housing is severely constrained as a result of the loss of Redevelopment and the severe cuts to federal programs. From $126,000,000 in 2008, we have just over

$47,000,000 countywide today. In the City of San Jose, this dramatic decrease is the most evident – in 2008, San Jose had almost $78,000,000 between its different housing sources; in 2013, they had just about $20,000,000. HOME dollars (not including San Jose) fell from $2,536,946 to just over $1,000,000.

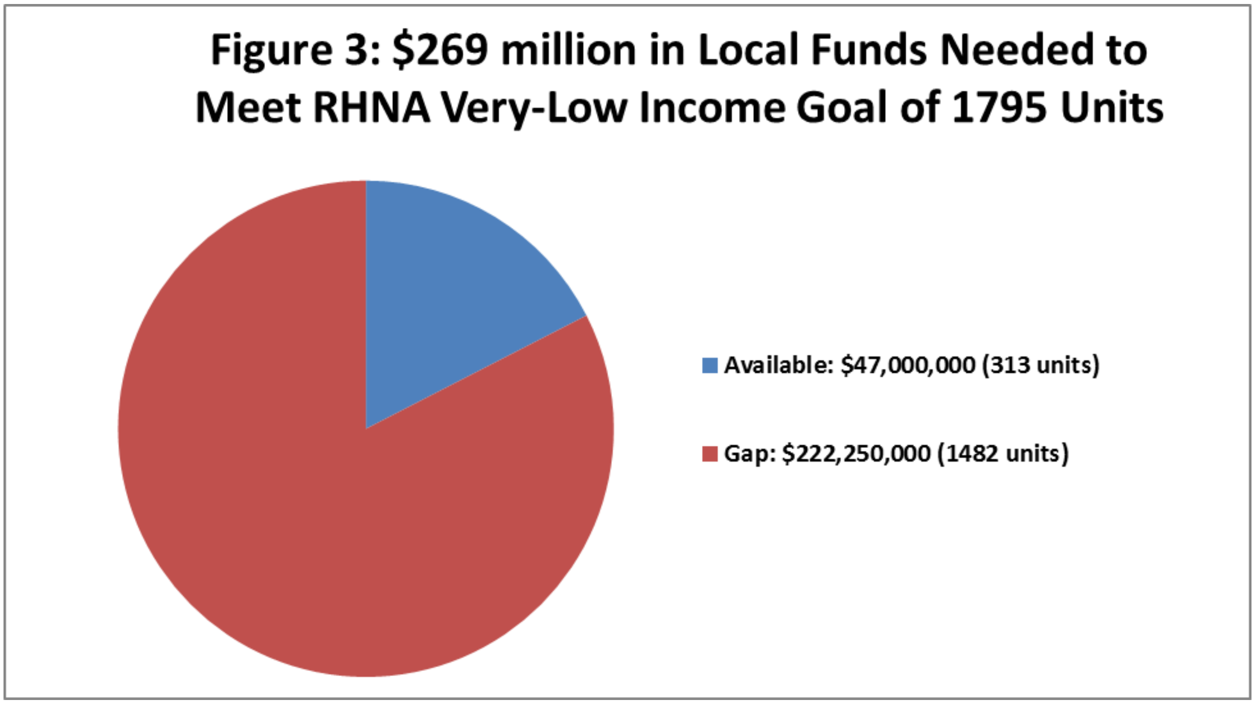
While the loss of redevelopment has dramatically reduced the funding available to cities, there are a few other funding sources available. The Stanford Fund has just over $7,000,000 that has rolled over from 2010 that is available and uncommitted. In addition, commercial impact fees collected in 2013 brought in $7,000,000 for Sunnyvale and $3,200,000 for Mountain View. Finally, the County of Santa Clara passed a RDA "boomerang" policy that set aside approximately $2,600,000 in one-time housing funds and 20% of ongoing revenue, provided all cities provide the same 20% match of their own residual tax increments to housing programs, which would result in approximately $5,000,000 total (not including the City of Santa Clara). See Figure 2 for details of the funding sources available in 2013.

Figure 2: 2013 Affordable Housing Funding



Source: Data provided by cities; chart prepared by Housing Trust Silicon Valley

If we assume that this level of funding will be available to us each year, then with $47,000,000 countywide for affordable housing development, we could subsidize 313 units of housing a year. Looking at our ABAG provided RHNA goals for 2014-2022, this would result in 2500 units – far short of the 16,158 called for from the state. Furthermore, we need an additional $222,250,000 annually to fully address the RHNA goals for very low income housing as shown in Figure 3 below. As noted earlier, RHNA numbers tend to be difficult for cities to meet; however, it is one of the few measures we have to assess the future housing need and the fulfillment of the need across the region. This number doesn't address the current unmet need for affordable housing.



Source: ABAG 2014-2022 Regional Housing Needs Allocation
Details: assumes $150,000 subsidy cost per unit

Strategies to Rebuild

In this atmosphere of constrained funding resources there still remain several policies and funding sources that can be used by cities to rebuild their funding capacity. Those strategies include RDA "boomerang" funds, inclusionary zoning, impact fees, ballot measures and zoning options.

A. RDA "Boomerang" Funds

What are "Boomerang" funds? "Boomerang" funds are former Redevelopment Agency (RDA) funds that return to the county as unrestricted General Funds. Using a state-adopted formula the funds are distributed back to schools, the County, former RDA cities, and other agencies. Former RDA cities will each receive a percentage of the unrestricted General Funds.

Cities/Counties that have adopted policies to utilize former RDA funds. In April 2013 San Mateo County approved the allocation of $13.4 million in unrestricted General Funds for affordable housing. The funds have been set aside in an Affordable Housing Fund for financial assistance for the development of affordable housing and emergency shelters. Seventy-five percent ($10 million) has been specified for the development of affordable rental housing in former RDA cities. Twenty-five percent ($3 million) has been specified for shelter construction and improvements[10]. The City of San Mateo estimates it will receive $106,500 in Program Income and $2.9 million in Program Carryover[11].

Santa Clara County passed policy for allocation of former Redevelopment Property Tax Trust Fund. When redevelopment was eliminated by the State Legislature, there were two affordable housing funding sources lost. The first was the accumulated balances in a city's RDA low-moderate housing fund that the RDA had not yet committed to a third party for development of affordable housing. These balances were swept to taxing agencies, and are typically referred to as the "one-time" funds. In Santa Clara County, the portion that went to the County, was approximately $2,600,000, and came from the balances of Campbell, Los Gatos, Milpitas, and Mountain View RDA housing funds. The City of Santa Clara is challenging

[10] San Mateo County - Affordable Housing Fund: Funding Policies and Guidelines http://www.co.sanmateo.ca.us/Attachments/housingdepartment/PDFS/NOFA%202013/doh_nofa_fundingpolicies.pdf
[11] City of San Mateo Action Plan http://www.cityofsanmateo.org/DocumentCenter/View/36962

their housing fund balance, but should they not prevail, the portion of their one-time housing fund going to the County is $11,200,000.

The second source lost is the ongoing 20% of increment tax revenue that went annually into RDA set-aside funds. Countywide, this totaled $65,000,000 between the nine redevelopment agencies. The largest amount of this was the City of San Jose, which received approximately $40,000,000 annually for its set-aside fund. When Redevelopment was eliminated and this increment tax revenue was reallocated to taxing agencies, it is estimated that the County will receive about 13% of the ongoing RDA revenues. However, the City of San Jose's ongoing revenue is committed to paying off associated housing bonds and other RDA-related debt and not reallocated to taxing agencies, so the amount expected to go to the County initially is closer to $3,500,000 annually (13% of remaining $25,000,000).

On June 21, 2013 Santa Clara County Board of Supervisors adopted a resolution pledging 100% of its one-time funds for affordable housing in the County, and up to 20% of its ongoing RDA revenue for affordable housing.[12] Part of the resolution called for cities to dedicate their own "boomerang" funds as matching dollars for affordable housing.[13]. Cities must adopt similar policies that dedicate 20% of their ongoing RDA funds to affordable housing, but at this time cities have not been formally asked by the County to commit their funds. If all cities did commit their boomerang funds we would have around $7-8,000,000 for affordable housing countywide, which while important, is much less than the $65,000,000 we had before Redevelopment was eliminated.

B. Inclusionary Zoning

What is inclusionary zoning? Inclusionary zoning requires that developers include a percentage of below market rate (BMR) units for low to moderate income households in new rental or for-sale residential developments. Each city sets a specific percentage of units to be set aside as BMR units.

Since the 1970s, over 170 jurisdictions throughout California, and most cities in Santa Clara County, have enacted inclusionary housing ordinances to meet their affordable housing needs. While many of these local programs have been in place for decades, a recent decision in Palmer/Sixth Street Properties, L.P. v. City of Los Angeles (2009) created uncertainty and confusion for local governments regarding the future viability of this important local land use tool, resulting in these residential inclusionary zoning policies being put on hold in cities. It was the intent of the Legislature in AB 1229 to reaffirm the authority of local jurisdictions to enact and enforce these ordinances.[14]

Due to the veto of Assembly Bill 1229 that would have overturned the Palmer ruling and returned local control to jurisdictions, inclusionary zoning for residential rental projects are still on hold. Passage of AB 1229 would have provided local jurisdictions the ability to implement inclusionary housing requirements as part of their land use authority and would have ensured that a percentage of all new developments include homes affordable to hard-working lower income households. This legislation was particularly important in communities that have lost the ability to implement existing inclusionary ordinances and provide affordable housing such as the city of San Jose. Inclusionary zoning on for-sale housing has not been challenged and is currently in effect in several cities. However, the Builders Industry Association (BIA) has filed a legal challenge to San Jose's for sale-inclusionary program and is waiting to be heard on appeals by the California Supreme Court.

In-lieu fees are an alternative option to inclusionary zoning which allows the developer to pay a fee towards affordable housing in-lieu of actually constructing Below Market Rate (BMR) units. Not all cities allow in-lieu payments in place of BMR units. Some cities will only allow in-lieu fees to be collected in place of fractional units.

[12] County of Santa Clara Agenda June 17, 2013
[13] Santa Clara County Fiscal/Budget Item 67850 http://sccgov.iqm2.com/Citizens/Detail_LegiFile.aspx?ID=67850
[14] Text of AB 1229, Sec 2, (b) – (d). http://leginfo.legislature.ca.gov

C. Impact Fees

What are impact fees? Impact fees are fees charged to developers to mitigate the projected impacts of their new developments on the need for affordable housing. The impact fees vary by city as shown in Table 2. There are several different impact fee strategies as described below. These fees are governed by the Mitigation Fee Act (AB 1600), which requires that there be a rational nexus established between the development and impact that the development may cause, and that any fees bears a rough proportionality to the size of that impact.

Residential Impact Fees are fees charged to developers on new development of for-sale and/or rental market rate housing at a per unit or per square foot basis. In order to charge a fee, a city council must find a legal 'nexus' between the creation of new market rate housing and the need for additional affordable housing.

Commercial Linkage Fees are fees charged to developers of new commercial development on a per square foot basis. The affordable housing that is funded by this fee is constructed nearby the commercial development in order to provide for a jobs housing balance. Like residential impact fees, a nexus analysis is also required for commercial linkage fees.

Table 2: Overview of cities with inclusionary zoning and impact fees

City	**Inclusionary Zoning on For-Sale Housing**	**In-Lieu Fee on For-Sale Housing**	**Housing Impact Fee**	**Commercial Linkage Fee**
San Jose	20% required for low- and moderate income units in new for-sale residential development; or 15% required for very-low and low- & moderate income units.	Fee varies based on type of development, capped at $90,000/condo unit to $200,000/single-family detached unit.	Nexus study	No
Campbell	15% BMR units for low and moderate required in new residential development over 10 units.	Allowed for projects less than 6 units per acre.	No	No
Cupertino	15% BMR units for moderate income required in new residential development.	Allowed for projects of 1 to 6 units. Fee is assessed on per sq ft basis adjusted annually for the Consumer Price Index.	$2.58/sq ft	$4.91/sq ft
Gilroy	15% BMR units required for new residential development in Neighborhood districts.	No	No	No
Los Altos	20% low or 10% very low BMR units required for new residential development.	No	No	No
Milpitas	20% as maximum goal for BMR units in new residential development. Unit requirements determined on project by project basis.	No	No	No
Morgan Hill	Permit Approval Procedure	$150,000/unit	No	No
Mountain View	10% BMR units required in new residential development over 3 units or mixed-tenure project over 6 units.	Allowed for fractional units and if price of homes in development is too expensive for practical BMR unit. Fee is 3% of actual sale price of unit.	$10/sq ft	$10/sq ft
Palo Alto	15% BMR units in new residential development fewer than 5 acres; 20%	Allowed for fractional units only. For 15% BMR requirement fee is	No	$18.44/sq ft

	BMR units for development more than 5 acres.	7.5% of the greater of the actual sales price of each unit; for 20% requirement fee is 10%)		
Santa Clara	10% BMR units required in new residential development over ten units.	No	No	No
Sunnyvale	12.5% of BMR units for lower to moderate required for new residential development over 8 units.	Fee is equal to 7% of contract sales price of all units in project. Minimum rate fee may be adjusted proportionally for fractional units.	Nexus Study	$8.95/sq ft applied to high-intensity industrial development

Source: Housing Elements/Zoning Code/Developer BMR Manuals

Potential for commercial linkage fees in Santa Clara County. Hypothetically, if the commercial linkage fee is applied countywide there is the potential to raise significant funds. For example, in the City of Santa Clara two new office buildings totaling 295,500 square foot are being constructed by Peery Arrillaga for Apple[15]. In North San Jose, Samsung is constructing a new 680,000 square foot building[16]. In addition, the Silicon Valley Business Journal reports the Irvine Company is in Phase 2 of construction of the 911,000 square foot Santa Clara Gateway campus[17]. If Mountain View's strategy of $10 per square foot is utilized, then there is the potential to raise $18,865,000 in funds from three projects.

Potential for residential fees in Santa Clara County. In addition to the potential of commercial fees as noted above, there is also the hypothetical potential for residential impact fees to raise significant funds. For example in San Jose the developer Simeon Residential Properties is constructing Centerra, a 21 story, 347 residential unit project of roughly 325,000 square feet[18]. Also in San Jose at One South Market, Essex Property Trust is constructing 255,000 square feet of 312 residential units on a 1 acre site. In addition Milpitas recently approved a residential project consisting of 98 townhomes and 108 condominiums[19] at about 298,000 square feet. Again, utilizing the $10 per square foot strategy of Mountain View would provide the potential to raise $8,780,000 in funds.

D. Examples of Ballot Initiatives

In addition to the strategies of inclusionary zoning and impact fees as outlined above, there are also several other actions that can be taken by cities to generate funding for affordable housing. Those actions include ballot measures that are brought to the voters for decision. The following is an example of a city that used ballot measures to create new affordable housing funding sources.

In November 2012, Proposition C Housing Trust Fund went before voters in San Francisco. Prior to passing San Francisco had several other Proposition measures that failed at the ballot. Those propositions include Proposition B Affordable Housing General Obligation Bond in 2002 which failed a two-thirds majority vote[20] and Proposition B Affordable Housing Set Aside in 2008 which failed to garner enough votes[21]. In 2012, Proposition C passed with 65% of the vote satisfying the majority approval requirement[22] which will provide a permanent source of funding for affordable housing. San Francisco's new Housing Trust Fund will capture revenue from former Redevelopment Agency (RDA) "boomerang" funds, a small portion of Hotel Tax that has been appropriated yearly for affordable housing, plus an additional $13 million in new General Fund revenue from an increase in business license fees. The consensus business tax reform measure, Proposition E, which also passed on the November ballot, will generate $28.5 million in the first year – $13 million of which will go to fund affordable and workforce

[15] http://www.bizjournals.com/sanjose/news/2013/10/20/apple-is-already-building-a-curvaceous.html?iana=ind_cre
[16] http://www.bizjournals.com/sanjose/news/2013/10/16/now-going-up-samsungs-mountain-view-hq.html?iana=ind_cre
[17] http://www.bizjournals.com/sanjose/print-edition/2013/09/27/irvines-big-spec-project-pays-off.html?iana=ind_cre
[18] http://www.bizjournals.com/sanjose/news/2013/09/12/centerra-breaks-ground-san-joses-new.html
[19] http://www.mercurynews.com/milpitas/ci_23395800/206-housing-units-replace-auto-pick-and-pull
[20] http://www.smartvoter.org/2002/11/05/ca/sf/meas/B/
[21] http://www.smartvoter.org/2008/11/04/ca/sf/prop/B/
[22] http://www.smartvoter.org/2012/11/06/ca/sf/prop/C/

housing[23]. San Francisco estimates that $1.5 billion funds over the next 30 years will go towards affordable housing construction and programs.

E. Zoning Actions

In addition to the strategies requiring funding, a number of tools are available to address the challenges of affordable housing that don't require funding. First, given that the need for affordable housing is significant and that sufficient funding may not be found to meet all of the need, local governments can adopt policies that facilitate the development of housing affordable for lower-income households. One such policy is to promote the use of dedicated surplus property for affordable housing development. By taking land costs out of the financial equation, this can facilitate affordability. Second, another policy is to adopt secondary unit ordinances that enable homeowners to build secondary residential structures (granny units) on existing lots. Finally, another option is to enable projects that are "affordable by design." An example of a project type that is naturally more affordable is micro-units, or extremely small units of 200-400 square feet. While this may not make housing affordable to lower-income households, it provides an opportunity for workforce housing for entry-level workers and professionals.

Protecting existing housing, whether already affordable or naturally affordable is also important. Cities can adopt policies to limit the conversion of mobile homes or apartments, which can displace some of the area's most needy residents. In the event units do convert, cities can adopt replacement housing provisions that would require that displaced inhabitants be compensated or that replacement housing is made available.

Lastly, although rental inclusionary programs are largely suspended due to the Palmer decision, Palmer does enable cities to require that developers include affordable units in a project if the developer is providing other benefits. When developers are allowed to increase zoning or decrease parking, or are providing other incentives, cities can insist on some affordability.

Regional Examples

Philadelphia - Housing advocates in Philadelphia waged a campaign to pass legislation enabling the City to increase recording fee revenues dedicated to the City's Housing Trust Fund. Led by the Philadelphia Association of Community Development Corporations, the campaign was victorious: the legislation was passed and signed by Governor Tom Corbett late in 2011.The bill will expand funding by at least $3.5 million annually for the Philadelphia Housing Trust Fund. The state authorizing legislation was needed to implement a local ordinance, unanimously approved by the Philadelphia City Council in December 2009 and supported by Mayor Michael Nutter, which increases the local deed and mortgage recording fee by $30 and dedicates it to the Trust Fund. [24] Here in California this is not a likely option, due to the need for state enabling legislation and the proposed use of recording fees for the state's own permanent affordable housing fund.

Voters in Bellingham WA approved Proposition 1, which imposes a tax of 36 cents per $1,000 of property value, generating $21 million over 7 years to the Bellingham Home Fund to provide housing for families, seniors, veterans and others experiencing or at risk of homelessness. The vote required majority, not two-thirds, approval.

Seven Massachusetts Communities Adopt Community Preservation Act. Voters in Beverly, Canton, Fall River, Great Barrington, Salem, Somerville, and Somerset adopted the Community Preservation Act, which provides funding for affordable housing, open space preservation, historic preservation, and outdoor recreation. Beverly (53% Yes), Canton (56% Yes), Salem (58% Yes) and Somerset (52%) approved a 1% property tax surcharge. Fall River (58% Yes) and Somerville (76% Yes) approved a 1.5% property tax surcharge. Great Barrington (62% Yes) approved a 3% property tax surcharge. These measures required majority, not two-thirds, approval.

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[23] Office of the Mayor News Release http://www.sfmayor.org/index.aspx?page=846&recordid=186&returnURL=%2Findex.aspx

[24] http://housingtrustfundproject.org/philadelphia-gains-increased-revenues-for-housing-trust-fund/

55% of voters in Houston, Texas approved Proposition E, authorizing the issue $15 million in Affordable Housing Bonds be used for demolition of blighted properties — so that new affordable housing can be built to help working families. Majority approval was required, not two-thirds. [25]

Land Value Recapture. In 2008, New Jersey's State Legislature passed a version of inclusionary zoning that ties affordable housing requirements to re-zonings that result when nonresidential land gets rezoned into residential land. The actual affordable housing requirement is tied to the financial feasibility of the individual development. But, the overall concept, that the increase in land value that is created when a city rezones land includes with it the requirement to produce affordable housing for the community. [26]

Conclusion

As indicated, **the funds available locally for affordable housing have plummeted 64% in the last five years.** From $126,000,000 in 2008, we have just over $47,000,000 countywide today available for affordable housing. In order to fulfill the 2014-2022 RHNA numbers dedicated to our region and fulfill the requirements of SB 375 that encourages affordable housing and sustainable development, we will need an additional $220,000,000 per year. With the dissolution of Redevelopment Agencies and the dedicated source of affordable housing funding, it is obvious that new ongoing dedicated sources are needed to meet the need of affordable housing for our communities. In summary, there are a number of tools and strategies to pursue to help address this enormous challenge. Some of these strategies are actions individual members of the Cities Association can do themselves; other strategies are ones the Cities Association and its community partners can advocate for.

Potential Actions by Local Cities

The Cities Association recommends supporting the county's RDA "boomerang" strategy and encourages cities to dedicate their own one-time and ongoing "boomerang" funds from their General funds to match the county's allocation. While some might look at this as a "drop in the bucket" in the face of the need for funding, these actions can also be seen as a down payment on a larger effort to raise the necessary revenue for affordable housing.

Regarding impact fees, given the strong local market for commercial and residential development, this seems to be a viable option for raising funds for affordable housing. As noted earlier in the study, applying Mountain View's impact fee schedule to six new developments elsewhere in the County would generate more than $26,000,000 for affordable housing. Currently, Mountain View, Cupertino, Palo Alto, and Sunnyvale all utilize either residential or commercial impact fees, while San Jose and Sunnyvale are studying residential impact fees. It is recommended for cities not currently utilizing either commercial or residential impact fees to consider these options for their jurisdictions.

Regarding making homes affordable through zoning or "by design," this is an advantageous strategy to consider when sufficient funding may not be available to fulfill a jurisdiction's need of affordable housing. Whether it is through the dedication of surplus property, the adoption of secondary unit ordinances that enable homeowners to build granny units, or the development of micro-units, local governments can adopt policies that facilitate the development of housing affordable for lower-income households without the use of additional funds.

Potential Advocacy Areas for the Cities Association and Community Partners

Despite the failure of AB 1229, a number of state bills are being reviewed by the legislature that could potentially create a permanent source of funding for affordable housing. Senate Bill 391, the California Homes and Jobs Act 2014 was introduced by Senator DeSaulnier in 2013 and proposes to generate up to $720 million per year. The Cities Association has expressed support for this bill and continues to monitor the bill as its concept and implementation are further developed through this upcoming legislative session.

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[25] http://housingtrustfundproject.org/housing-trust-funds/city-housing-trust-funds/9-htf-wins-nov-6/

[26] Nico Calavita, Allan Mallach, "Inclusionary Housing, Incentives, and Land Value Recapture" http://www.nhhfa.org/news/presentations/FairHousingInclusionaryHousing.pdf

While this is important permanent source of funding on the state level, we recognize that a successful affordable housing development requires both local and state funding, so the eventual passage of SB 391 may still require cities to develop their own sources of funding in order to access the state funding.

Regarding inclusionary zoning and in-lieu fees, the Cities Association supported AB 1229 (Atkins) because it proposed to restore local control of affordable housing programs and allowed local governments the opportunity to utilize a proven strategy for creating healthy, diverse neighborhoods with a variety of housing options. Unfortunately, as noted earlier, Governor Jerry Brown chose to veto the bill despite strong support from major developers, tenants, affordable housing advocates, and major newspapers. Cities should continue to support legislation that could provide a fix to the Palmer decision.

Regarding ballot measures creating a permanent source of funding, the city of Mountain View polled an affordable housing fee that constituted a $59 parcel tax. While it received a 53% approval rating, it fell quite short from the 2/3 approval rate needed to pass. Many successful examples from around the country, where localities approved new affordable housing funds, passed with a simple majority. The Cities Association recommends advocating for state legislation that supports lower voter threshold for measures that increase affordable housing or sustainable communities.

Regional Approaches

There are also a number of regional approaches that could help address some of the affordable housing challenges facing our cities. The Cities Associations recommends working with the County of Santa Clara to consider funding from nontraditional sources of affordable housing – such as using Affordable Care Act funding for development of permanent supportive housing, which has been proposed in the state of New York through their Medicaid Redesign Team initiatives. [27] Finally, due to the sudden depletion of affordable housing resources and the fact that that we are unable to produce enough housing units to fulfill anywhere close to the RHNA numbers allotted, this is an opportune time for various housing agencies throughout the County to continue exploring a regional housing administration policy, either through a Joint Powers Authority or other body, to utilize existing and future housing dollars as efficiently as possible.

The Cities Association of Santa Clara County and Housing Trust Silicon Valley recognize that there is not a “one size fits all” strategy. As the Cities Association strives to provide a unified voice for the 15 cities of Santa Clara County and improve the quality of life for the people of our county, individual cities need to identify the tools that fit best within their communities. Whether it be through local, regional, state, or a combination of several approaches, the strategies recommended in this paper are intended to be reviewed and considered by our membership cites in order to meet the challenges of affordable housing as an effort to improve the quality of life and develop sustainable communities across the region and the state.

[27] http://www.governor.ny.gov/press/09122013-medicaid-redesign-individual