

Exhibit D Soundness of Approach
[City of San José]

Exhibit D Soundness of Approach

Vision:

The vision is to drive forward San José’s anti-displacement strategy by creating a responsive public subsidy process that will unlock a new type of affordable housing in the county, and the region, that keeps people in affordable market-rate rental housing, or naturally occurring affordable housing (NOAH). As the affordable housing crisis worsened across the country, a robust public subsidy process was built at the federal, state, and local level to support production of new affordable units. San José’s public subsidy process reflects this reality with significant support for new production. Yet, this approach was unresponsive to existing affordable housing and left current low-income residents without support to stay in their homes at affordable rates. The preservation of existing units addresses the needs of current low-income residents by creating a new public process to support rent stabilization and building maintenance. Preservation will require a new set of regulatory agreements with a faster disbursement process for financial support that evaluates a building’s condition and location. With a new responsive subsidy process, local community groups and non-profit developers will be able to create a business line around the preservation and operation of existing affordable housing. Community groups can then support residents not only with affordable homes but also with connections to services and tenant education programs. This new process will support existing residents so that they can remain and prosper in their neighborhoods which otherwise risk becoming exclusionary. All the funding will go to support units for low-income households with incomes at or below 80 percent AMI. It will also create future redevelopment opportunities in neighborhoods with displacement concerns.

By targeting NOAH properties at risk of losing affordability, this proposal directly responds to several of the city’s key strategies and initiatives. The first is a recommendation from the City’s most recent Housing Element to establish a Preservation NOFA, which this proposal intends to supplement with PRO Housing funds. NOAH properties at risk of losing affordability tend to be located in the central/downtown neighborhoods at an elevated risk of displacement; by stabilizing these properties, the proposal is directly intended to align with and supplement the City’s Anti-Displacement Strategy, approved in August 2020. The City’s most recent Analysis of Impediments to Fair Housing (AI), furthermore, recommended that San José “Explore and establish other preservation policies, programs, funding, or tools as appropriate including acquisition.”

Problem:

Displacement has been threatening low-income minority communities across San José for many years, but the city has an unresponsive subsidy process that does not provide support to help tenants to stay in their homes and community. San José is becoming less diverse, and availability of affordable housing is a driving factor. A review from the City’s most recent Assessment of Fair Housing, for example, found that the City’s Hispanic population declined by over 12,000 people from 2017 through 2020, even as the City’s population grew by 6,000 over this same time frame (source: Assessment of Fair Housing and automated HNA for the second half). Community outreach conducted by SJHD found multiple stakeholders who believed the rising cost of housing to be the direct cause of outward migration among the City’s Hispanic

population. San José also delivered a record 22,000 new housing units between 2015 and 2021. Yet, 75 percent of these units were market rate; despite the addition of supply rents did not reduce.

Most of the population at risk of displacement lives in unsubsidized affordable housing (sometimes referred to as “naturally-occurring” affordable rental housing) which is at risk of losing its affordability as rents rise. A significant share of San José’s affordable housing stock is unsubsidized rather than deed-restricted, as is the case in most of the country. In 2021, the most recent year of available data, roughly 68,000 San José households at or below 60% of AMI were living in units with affordable rents. Roughly 70 percent of these units (47,000) were unsubsidized affordable units without any deed restrictions (source: Public Use Microdata Survey & National Housing Preservation Database).

Although the City’s Apartment Rent Ordinance offers some protections to existing tenants who continuously occupy units that are covered under the ordinance, many of these units gradually lose their affordability as tenants move out, at which points rents are legally allowed to float to market rate. For example, property owners covered under the ARO policy who reported to the city between August of 2022 and June of 2023 that a tenant had moved out increased rents in the newly vacated units by an average of 9.7%. As renters gradually move out of their units, these kinds of rent increases occur in a larger share of the housing stock, meaning that lower-income households have a shrinking share of the housing stock that is affordable to them. Without additional mechanisms to ensure long-term affordability, these households are vulnerable to displacement and the units themselves are vulnerable to loss.

Analyses on access to fair housing have underscored this problem by identifying clear obstacles for low-income and minority households. The City of San José’s 2017 Analysis of Impediments to Fair Housing (AI) identified the following four central obstacles to fair housing in San José:

1. The availability of affordable units in a range of sizes;
2. Location and type of affordable housing;
3. Displacement of residents due to economic pressures;
4. Lack of tenant eviction protection and tenant education

The AI recommends that San José “explore and establish other preservation policies, programs, funding, or tools as appropriate including acquisition.”

Furthermore, the City’s Assessment of Fair Housing asserts the essential contribution of preservation to reducing segregation: “San José (as segregated as we are and as problematic as our history has been) is the primary home for diversity and inclusion in the Silicon Valley. And there are intense market pressures that would cause the demographics of San José to become more like the rest of the Silicon Valley. So, in this context of regional equity, preventing displacement of low-income people of color from San José becomes all the more important.”

Progress to adopt the AI’s recommendations has been hampered by a subsidy process that is unresponsive to housing preservation. The City’s current subsidy process effectively supports the production of new affordable housing units but leaves developers and community groups without a process to protect a majority of the affordable housing stock. Since 2018, San José has dramatically increased support for housing production, making \$250 million in gap financing

available for local projects. This funding is made available annually to applicants who can demonstrate that they have already leveraged other sources--typically Low Income Housing Tax Credits (LIHTC) allocations-- and have a clear development plan. There are no recurring state or federal funding streams to support the local preservation of affordable housing. LIHTC allocations are too competitive in California to support these efforts. Furthermore, the LIHTC regulations focus on properties affordable to low income residents (60 percent of AMI and below), which does not include those facing displacement pressure that may have higher incomes. The City's subsidy process functions well for new construction but does not respond to the need for preservation projects. As a result, San José is losing affordable homes at an alarming rate leading to continued displacement of low-income and minority residents. It also leaves non-profit developers and community groups without resources to build a business plan around this approach. For example, during the housing outreach process in 2019, the City of San José hosted a nonprofit developer focus group where developers said there is "lack of capacity building in general" around affordable housing and preservation specifically. Furthermore, the same group commented that the current process for applying for funding had a cumbersome acquisition process that needed streamlining to support local developers. One developer noted that "rehab are rare and take forever" because it takes too long to be reimbursed through the current subsidy process.

To create a responsive subsidy process will require a different approach that is separate from the production of new units. The major changes that need to be made include:

- Evaluation process: Existing buildings are usually sold in competitive processes facilitated by brokers that require quickly assessing buildings, assembling financing, and closing transactions. This requires a different approach to project planning and familiarity with a new set of financing tool, therefore the public process will need to offer funding on a consistent basis and work to make sure that developers are pre-approved for funding to the extent that it is available.
- Funding and supporting pre-development: The initial costs of evaluating and acquiring a building are typically not covered by gap financing programs but will be critical for existing affordable housing because to secure buildings subsidy is needed before full renovation and operations scopes are understood.
- Streamline renovation support: The current process for establishing support for the renovation is cumbersome with too many steps and hurdles for developers to make improvements to buildings. This process will have to be streamlined and funded up front in order to guarantee that developers are able to maintain habitable conditions.
- Regulating incomes: Existing tenants may or may not fit the long-term regulatory agreement associated with the building. There may be tenants that are over or under income as well as tenants who are severely cost burdened or living in overcrowded situations. The regulatory agreements for preservation will need to allow for a re-positioning period and monitor conditions for in-place tenants.
- Supporting major repairs: Given that rents are lower, there may be circumstances when a building needs a major repair to a critical repair several years into the regulatory agreement that cannot be covered via the property's cash flow. In these circumstances, there will need to be resources outside the project budget that are available to support repairs.

- On-going property management: Although the properties will be in targeted neighborhoods with high displacement pressure there needs to be opportunities for local developers and community groups to work together on property management and other operating cost. This is critical to financially maintaining the building as well as protecting local organizations from mission creep into functions that are not best provided by small organizations.
- Tenant engagement: Given that there are existing tenants, the process will need to include opportunities for engaging with them to ensure their needs are met and that they understand the changes on-going at the building. One way of expanding the subsidy process is by involving local community groups in ownership and operation of the buildings so that they can link tenants to neighborhood services.

San José recently started to reform this process by issuing two innovative notices of funding available that offers an initial pilot for the approach being considered in this application. Utilizing funding from a property transfer tax, Measure E, San José issued a notice for \$5 million for acquisition and rehabilitation. At the same time, San José also issued a notice for \$1 million for technical assistance to help local organizations evaluate opportunities and advance investment plans for affordable housing preservation.

Description of Activities: Affordable Housing Preservation

San José will develop a new process for subsidizing housing preservation by offering a pool of funding that is consistently available and supportive of local affordable housing developers and community groups. The funding will be invested in areas of high displacement to preserve existing multi-family affordable housing properties. The financing program will only fund units that will be income regulated to households at or below 80 percent of area median income, but the building itself could be mixed income. Applicants will be able to access the funding throughout the year to support the speed at which they will need to move to acquire properties. San José will work to prequalify organizations so that they can process requests more quickly, with a focus on local non-profits and community groups. The funding will be available to support acquisition, redevelopment, and rehabilitation costs. Eligible funding requests will include technical advisors and consultants to ensure that the developers have a well-developed business plan and approach to managing the property. The funding will be structured as a long-term low interest loan with paydowns as renovations are completed and buildings stabilize. As a result, a portion of the funding will revolve to ensure that there are resources to support future acquisition and rehabilitation.

At the same time the city will also work with applicants to streamline operating costs and explore opportunities for joint property management across the portfolio of investments. A key element will be ensuring that the properties are connected to local community groups so that tenants have access to a wider range of information and services in the neighborhood. Through providing this funding the city will also monitor operating costs and provide opportunities for local developers to work together to better manage buildings.

The new process will expand the ability of community groups to engage with tenants and provide community connections. The new model will encourage tenant education about their

rights and responsibilities in San José. It will also offer a new opportunity to connect tenants to other community services through involvement with existing community groups and nonprofits.

These activities clearly align with the following eligible activities:

- Financing the construction or rehabilitation of affordable housing
- Acquisition or subsidization of at-risk housing for the purpose of preserving affordability
- Establishing loan or grant programs with affordability requirements or other mechanisms for rehabilitation of existing affordable housing units
- Creating anti-displacement policies and prevention measures
- Establishing an affordable housing preservation seed fund
- Capacity building for non-profit entities seeking to pool resources, engage landlords regionally, work more cooperatively, undertake joint housing rehabilitation programs, or merge operations
- Providing technical assistance to community land trusts or other entities which leads to the preservation of affordable housing
- Providing large-scale technical assistance to affordable or nonprofit developers, community land trusts

Barriers Addressed:

These activities will address the key barriers identified with the unresponsive subsidy system as follows:

- **Gap Financing Application Process:** The new process overcomes the current barriers to support preservation by allowing developers to be pre-approved, allowing funding to be available on a rolling basis, and evaluating developers' rehabilitation and operating plan. Furthermore, the proposed activities will create consistent support over 5 years so that entities can build a business model around this process.
- **Uses of Gap Financing:** The new process would be structured to allow developers to get support for pre-development, rehabilitation and technical support to supplement their existing staff.
- **Rehabilitation Permitting & Reimbursement Process:** The activities would create an opportunity for San José to streamline the rehabilitation permitting process, specifically for the properties that are financed.
- **Involvement of Tenants and Community Groups:** The new process will build and support local organizations' capacity to acquire and manage existing multi-family properties, while also building on their access to community and neighborhood level services. Through this new process tenants will increase engagement, be more informed and have access to additional services.

Review of Past Efforts:

There are four California programs that offer long-terms loans to non-profits, community groups and community land trusts that were considered in the design of these activities. The four programs are summarized in the table below. The experienced offer several key lessons that were incorporated into the design of the activities as follows:

1. Identify a Recurring Source of Funding: To build momentum and ability to complete these investment plans will require consistent and recurring funding.
2. Mixed Income Tenancy: Allowing for the building to be mixed income allows for easier transition and lease up.
3. City Staff Capacity: Developing a new process and supporting organizations to move through the process will require significant staff time
4. Fund Technical Advisors: Including the opportunity to fund technical advisors on specific real estate functions related to operating and existing multi-family property is critical to success.
5. Pooled construction contingency: Reserve a portion of the funding for future rehabilitation costs so that there are local resources to support long term building sustainability.
6. Identify opportunities for partnership: To create efficiencies the city should identify functions and opportunities for qualified developers to partner.

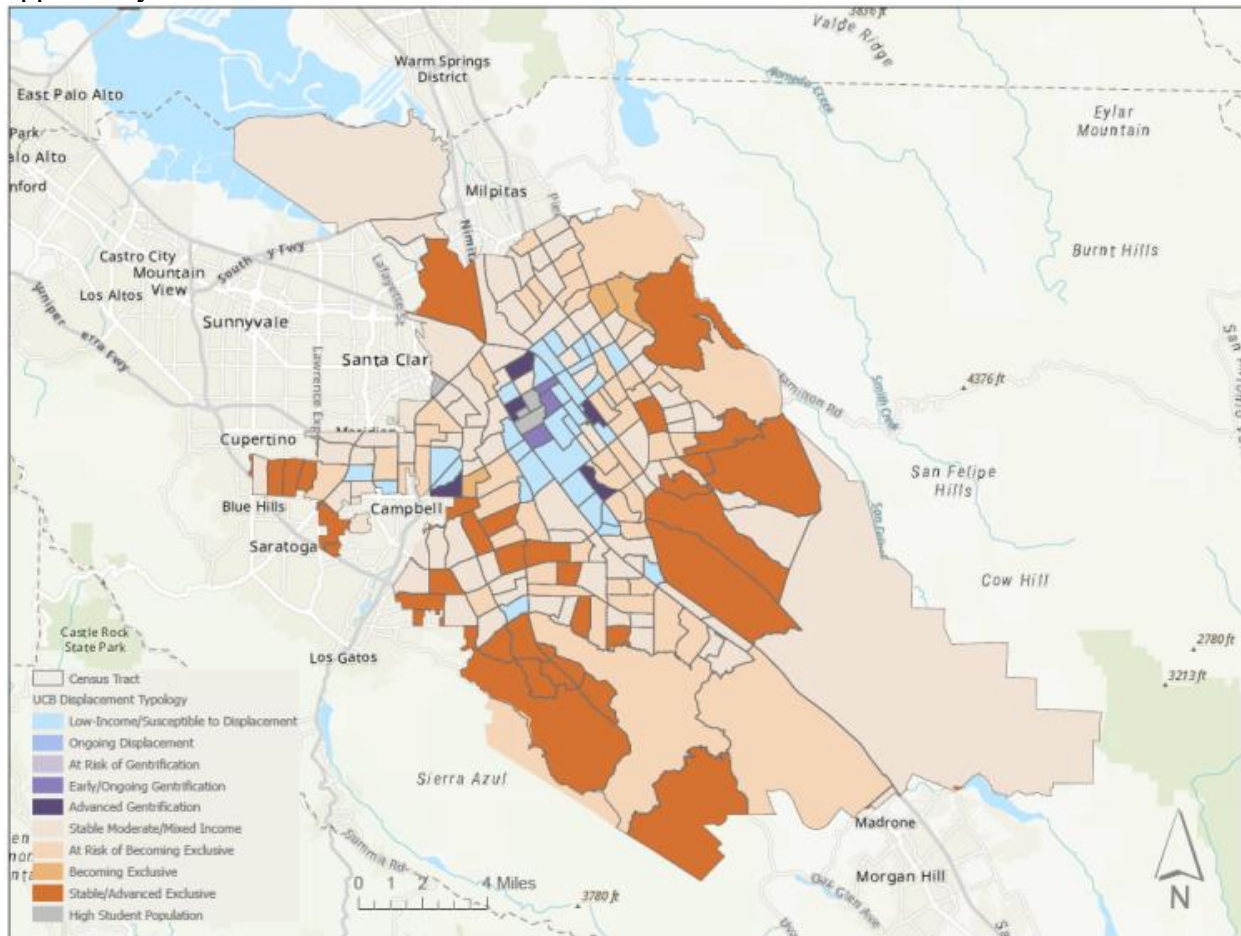
City	Subsidy Levels	Terms	Max AMI	Unit Limit	Projects Financed to Date
San Francisco	\$300,000-\$375,000 per unit	40-year , term, 75 year covenant, 3% interest	80% AMI	3 – 25	47
Berkeley	\$300,000 per unit for projects with 10 – 15 units; \$375,000 for projects with 2-9 units	55 year term, 55 year covenant, 0% interest	40% of all units must be at 60% AMI	2 – 25	1
Oakland	\$150,000 per affordable unit or a maximum of \$5 million per project	55 year term, 55 year covenant, 3% interest	≤ 60% AMI for rental projects; ≤ 100% AMI for ownership projects	>5	15
Los Angeles	Single source subsidy between \$150,000 - \$350,000 per unit	Grant, with affordable restriction in perpetuity	80% AMI	4 - 20	8

What is your geographic scope?

Geographic Scope

To combat displacement, investments will be targeted in areas identified as those with high-displacement potential. The following map identifies the areas of highest displacement risk in San José. This map will be used to guide investment and engagement. As proposed in this application, the creation of an active and well-resourced community-based acquisition and rehabilitation program will focus on the areas of San José currently experiencing high displacement and areas of high potential future displacement. Through targeted investments in areas of high displacement and support to community-based organizations to provide tenant education and services the program will directly support communities experiencing high rates of

displacement. Furthermore, these areas also coincide with areas of increasing access to opportunity.



The results of this new process will be targeted in San José but will eventually scale to the rest of the county and region, with implications for the rest of California. The means of scaling will initially be the funding recipients who will be able to work with communities across the county and region. The Bay Area Council of Governments recently launched a regional effort, known as the Bay Area Housing Finance Agency (BAHFA), to increase the supply of affordable housing with a key strategic focus on preservation. The supportive subsidy process in San José will be shared with BAHFA so that other jurisdictions can continue to reform their processes and work with the initial recipients of funding in San José. As the process becomes more widely used across the Bay Area it will eventually be shared across the state with opportunities for statewide reform and funding support.

Who are your key stakeholders? How are you engaging them?

San José Community Stakeholder Engagement

The San José Housing Department (SJHD) has undertaken multiple comprehensive community engagement processes in the last five years with key stakeholders for the activities

contemplated in this proposal. One engagement process was for the City’s most recent Housing Element Update and accompanying Assessment of Fair Housing, another for the City’s 2020 Anti-Displacement Strategy and a follow up for the Community Opportunity to Purchase Act (COPA) from 2021 to 2023. In addition, other public policy initiatives have included community engagement initiatives that overlap with issues of affordable housing; the Diridon Station Area Plan, for instance, included a community engagement process that revealed affordable housing and displacement as the top issues of concern from community members who participated.

Between the Fair Housing Assessment and Anti-Displacement Strategy, SJHD identified a broad range of stakeholder groups from whom to solicit feedback. The community engagement process for the Fair Housing Assessment spanned three years (2019 to 2022), totaling over 100 community meetings, focus groups, and stakeholder meetings. Twenty-one individual focus groups, often concentrating on members of protected classes, were held during this process, generating valuable community feedback. In addition, 51 meetings were held with distinct stakeholder groups, including housing industry groups (for-profit developers, non-profit developers, realtors, apartment associations), community advocacy organizations (NAACP, Latinos United for a New America, League of Women Voters, etc.), and other stakeholder groups. During the three-year window, SJHD conducted three surveys with a combined 2,103 responses, and administered 26 public and community meetings addressing various aspects of the updated Housing Element.

SJHD also conducted an in-depth process of community engagement in preparation of its citywide anti-displacement strategy, spanning late 2018 through early 2020. This engagement included eight interviews of community leaders in City Council districts particularly impacted by displacement pressures. SJHD then conducted five renter focus groups, nine community forums, and an additional survey of San José residents. Finally, SJHD staff conducted additional outreach to realtors and other stakeholders.

Following the completion and council approval of the citywide anti-displacement strategy, San José created an Anti-Displacement Implementation Working Group, with the help of its community engagement consultants (Baird + Driskell), to produce an intense six-month public outreach campaign that culminated in the May 2023 Community Opportunity to Purchase (COPA) proposal. When asked what would make COPA a success, participants named “support for building infrastructure for nonprofit buyers including preparation, resources and support throughout the transaction process.” Smaller nonprofit developers expressed a desire for technical assistance.

Moving forward, SJHD and the City have a number of staffing arrangements and working groups to facilitate ongoing community outreach during the administration of PRO Housing funds. SJHD plans to re-convene its Anti-Displacement Working Group on an ongoing basis, assembling a broad cross-section of relevant stakeholders and community members particularly impacted by displacement pressures. SJHD has built in ongoing mechanisms for outreach into the disability and homelessness-impacted populations; SJHD employs a part-time senior development officer, who is also a disability advocate, who is tasked with facilitating increased disability access to SJHD’s housing programs, deeper ties between SJHD and the disability community, and ongoing best practices for disability access. In addition, SJHD staffs a homeless outreach team, regularly interfacing with the unsheltered homeless population.

Key Stakeholder Identification

Community engagement processes across San José, as noted earlier, have routinely identified declining housing affordability as a key concern, and one that is likely driving displacement of longtime, lower-income residents. Multiple Latino/x residents and organizations shared during public forums in the Housing Element update that community members were leaving San José due to rising housing costs. During the community engagement process for the Anti-Displacement Strategy, SJHD staff heard from community members who were contemplating whether to move to the Central Valley, increasing their commutes to work or family, or moving even further away, severing ties from their community completely. Community members shared that the impacts of displacement have rippled out to local school closures, problems with employee retention, and impacted social networks.

As a part of its most recent Housing Element update, San José convened a non-profit developer focus group in December of 2019. The feedback from non-profit developers was instrumental in the formulation of this proposal. Developers in this focus group cited a “lack of capacity building in general”, as well as an acquisition process that they found difficult to navigate, and the market-wide scarcity of rehab activity. This proposal, by explicitly targeting capacity of non-profit developers, with the aim of increasing the viability of preservation projects citywide, is intended to directly address these obstacles to affordable housing in San José.

Following the completion and council approval of the citywide anti-displacement strategy, San José created an Anti-Displacement Implementation Working Group, with the help of its community engagement consultants (Baird + Driskell), to produce an intense six-month public outreach campaign that culminated in the May 2023 Community Opportunity to Purchase (COPA) proposal. This totaled 15 formal meetings of the working group, which spanned 160 different attendees from 50 organizations. Meetings were accompanied by Spanish and Vietnamese language interpretation services. In addition, 38 smaller meetings of individual stakeholder groups were held to discuss in-depth issues of COPA program design. These stakeholder groups included industry professionals and representatives: realtors, brokers, small apartment building owners, small apartment building property managers, for-profit developers, and lenders. These stakeholder groups also included community-based organizations: affordable housing developers, tenant advocates, community advocates, policy organizations, and leaders.

Proposal’s Community Feedback Process

This proposal’s focus on preservation was shaped by multiple processes, culminating in San José’s most recent Housing Element (2023-2031). The Element’s final strategy document listed a preservation NOFA (which this proposal is intended to supplement) as one of its primary preservation strategies. It did so based on feedback from three specific outreach processes: 1) the city’s neighborhood equity working group, 2) community meetings from the Housing Element itself, and 3) from outreach processes during the preparation of the citywide Anti-Displacement Strategy.

This proposal’s incorporation of capacity building among nonprofits was similarly influenced by multiple outreach processes. In preparation of the Housing Element, for instance, SJHD convened a non-profit developer focus group in December of 2019 that yielded valuable feedback. Non-profit attendees noted a “lack of capacity building in general”, as well as an acquisition process that is currently cumbersome and in need of streamlining. One non-profit

developer additionally lamented the infrequency of rehab activity citywide, which they partially attributed to the extended timelines rehab projects can face. When conducting outreach for the COPA program design, SJHD convened a Technical Assistance Committee (roughly 20 leaders spanning non-profits, business leaders, realtors, and landlords) that echoed capacity needs as an ongoing barrier to preservation outcomes. When asked what would make COPA a success, participants named “Support for building infrastructure for nonprofit buyers including preparation, resources and support throughout the transaction process.”

How does your proposal align with requirements to affirmatively further fair housing?

Please respond to each of the following:

- Describe your plans to remove barriers to the development of affordable housing in well-resourced areas of opportunity. How will your proposal increase access for underserved groups to these areas? What is the racial composition of the persons or households who are expected to benefit from your proposed grant activities?
- Describe your plans to remove barriers impeding the development of affordable housing that would promote desegregation. What policies or practices perpetuate segregation and how will your proposal address them?
- How will you ensure that your proposal will not cause affordable housing to be further concentrated in low-opportunity areas or in areas that already have ample affordable housing? How will your proposal increase housing choice by expanding the neighborhoods in which residents who need affordable housing can live?
- Do you plan to engage and support minority-, women-, and veteran-owned businesses during your proposed housing production process? Do you have a diversity and equity plan in place or plan to create one?
- Other equity considerations informed by your local circumstances.
- Describe how you will evaluate the effect of your proposal on promoting desegregation, expanding equitable access to well-resourced areas of opportunity, and furthering the de-concentration of affordable housing
- How will you track your progress and evaluate the effectiveness of your efforts to advance racial equity in your grant activities?
- If the applicant proposes to use PRO Housing funds to fund housing units, the applicant must discuss how those benefits will be affirmatively marketed broadly throughout the local area and nearby areas to any demographic groups that would be unlikely or least likely to apply absent such efforts.
- How does your approach address the unique housing needs of members of protected class groups, including persons with disabilities, families with children, and underserved communities of color?
- Does your plan address issues identified in your jurisdiction’s most recent fair housing plan or plans?
- Have you considered the risk of displacement associated with your proposal? How will you ensure that your planned activities do not lead to the displacement of vulnerable residents in communities of color? Describe any anti-displacement measures included in your proposal (e.g., replacement of affordable units for new construction, or right of first refusal for tenants)?

- How will your proposal address the housing needs of people with disabilities and increase their access to accessible and affordable housing? How will it support independent living with access to supportive services and transportation in the community? Please also describe your plan to ensure compliance with the Americans with Disabilities Act (ADA) and accessibility requirements under the Fair Housing Act.
- Describe the implementation and/or enforcement plan for your proposal. Describe how you will approach resistance (e.g. litigation, environmental review, design standards) to the elimination of your targeted barrier(s).
- Describe any equity-related educational resources, tools, or public input that have informed your proposal.

Furthering Fair Housing

Our plan proactively takes meaningful action to overcome patterns of segregation, promote fair housing choice, reduce disparities in opportunities by preventing the displacement of low-income residents in affordable housing under of loss due to either expiring affordability restrictions, demolition or market-rate redevelopment. Increasing access to well-resourced areas is achieved through preservation of unrestricted affordable housing in areas facing displacement pressures, keeping housing affordable for existing and future low-income residents and preventing those areas from becoming exclusionary.

Within San José, the most well-resourced neighborhoods of opportunity are in the southern and western portions of the city, where most residents are either non-Hispanic white, Chinese-American or South Asian Indian-American. The high cost of land, coupled with the exclusionary effects of the statewide requirement (Article 34) to obtain the approval for affordable housing development from of the majority of voters, prohibit cost-effective construction of affordable multi-family housing, even with an influx of public funds.

For southeast Asian (Cambodian, Thai, Vietnamese, Hmong, etc.) and Hispanic communities, residing principally in the northern and eastern neighborhoods of San José, displacement pressures have escalated in the past five to ten years, to a point where the city's Hispanic population has, for the first time in four decades, declined each of the past five years. Research indicates that low-income households who experience displacement tend to move to neighborhoods with a) higher poverty rates, b) higher crime rates, c) longer commute times, and d) declining educational outcomes for children. By establishing a responsive subsidy process for housing preservation in the neighborhoods experiencing displacement pressures, this proposal is most likely to benefit southeast Asian and Hispanic residents of the City.

By targeting NOAH properties at risk of losing affordability, this proposal directly responds to several of the city's key strategies and initiatives. The first is a recommendation from the City's most recent Housing Element, for which an Assessment of Fair Housing was prepared, to establish a Preservation NOFA, which this proposal intends to supplement with PRO Housing funds. NOAH properties at risk of losing affordability tend to be located in the central/downtown neighborhoods at an elevated risk of displacement; by stabilizing these properties, the proposal is directly intended to align with and supplement the City's Anti-Displacement Strategy, approved in August 2020. The City's most recent Analysis of Impediments to Fair Housing (AI),

furthermore, recommended that San José “Explore and establish other preservation policies, programs, funding, or tools as appropriate including acquisition.”

Removing Barriers and Promoting Desegregation

The City of San José is addressing policies and practices to promote desegregation through a “both/and” approach to affirmatively further fair housing by expanding lower-income households’ access to housing in all neighborhoods so they can live and thrive in San José and increasing resources in historically underserved neighborhoods to support these areas with ongoing investment. To achieve these goals, the City Council adopted an Affordable Housing Siting Policy to expand affordable housing choices through equitable development that reduces disparities in housing options among neighborhoods and continues to build integrated, vibrant, and healthy communities. Balancing data-driven and constituent engagement approaches, the Siting Policy applies to most activities that increase the stock of affordable housing in San José, including new construction affordable housing developed with public financing, including but not limited to developments directly funded by the City and those financed with tax-exempt bonds, regardless of the issuer; acquisition and rehabilitation of existing market-rate housing. It advances specific objectives, including:

1. Aligning with Federal and State affirmatively furthering fair housing (AFFH) laws and obligations;
2. Create a goal to develop affordable housing in areas of the City that have historically limited low-income housing development; and
3. Expand housing choices for low-income residents.

Ensuring Access to Opportunity

Preservation of unsubsidized affordable housing located in high-opportunity areas can prevent the displacement and subsequent concentration of low-income residents into low-opportunity areas with ample affordable housing. Preservation of affordable housing in neighborhoods experiencing increasing displacement pressure can keep housing affordable to lower income residents, rather than losing affordable units altogether to loss, sale or conversion to market-rate housing and keep from displacing residents to areas which already have ample affordable housing, often in low-opportunity areas.

Furthermore, research within the Bay Area shows that, within the last two decades, displacement of low-income households of color has led to re-segregation, rather than disrupting historical concentrations of populations along racial and ethnic lines. The City’s 2020 Anti-Displacement Strategy contains a review of this research. To summarize, a Turner Center study (‘Disparities in Departure’, October 2018) reviewed American Community Survey data for the Bay Area, and found that 1.5 million Bay Area residents moved out of the Bay Area between 2010 and 2016 (roughly one-fifth of the area’s present-day population). For every high-income household (earning more than \$200,000 a year) that moved out, six low-income households (earning less than \$50,000 a year) did. The study found that these low-income out-movers from the Bay Area were disproportionately Black and Hispanic. These out-movers, furthermore, tended to relocate

to the Central Valley of California, and reported reduced access to employment, education, and health care relative to their prior neighborhoods. A second 2018 study, produced by the California Housing Partnership and the Urban Displacement Project, reviewed displacement and segregation trends across the Bay Area from 2000 to 2015. Despite being displaced from communities with high levels of segregation, historically, the study found that displacement in the Bay Area did not ameliorate segregation. Instead, the number of Bay Area households living in high-poverty, high segregation neighborhoods increased by 15% for Black households and 100% for Hispanic households between 2000 and 2015.

While not necessarily generalizable to the United States as a whole, within the Bay Area, stemming the tide of displacement is likely to prevent further re-segregation. By executing this proposal as planned, SJHD can help to stem this trend of re-segregation among households displaced from San José neighborhoods, and help ensure that the next 15 years of household location do not continue the trends observed between 2000 and 2015 across the Bay Area.

Serving Protected Classes and People with Disabilities

The City conducted a thorough data analysis and engagement process with members of individual protected classes while developing the Assessment of Fair Housing as part of the recently-adopted Housing Element update. Data analysis revealed that race is the primary defining factor of segregation with low level of segregation for no racial factors. Nonetheless, feedback was consistent in SJHD focus groups with members of individual protected classes that there is an overall lack of sufficiently affordable housing in the City (e.g. January 2022 focus group with veterans' advocates, December 2019 focus group with survivors of domestic violence, multiple focus groups with LGBTQ+ community members).

Regardless of the demographic composition of tenants eventually served under this proposal, units under this proposed program will: (1) accept housing choice vouchers (HCVs); (2) contain ADA-compliant upgrades where applicable, for units that undergo rehabilitation; (3) will be affirmatively marketed to protected classes. As a matter of standing policy, SJHD requires all developers applying for SJHD funding to submit affirmative marketing plans, and this will be the case for this proposal. By preventing displacement of people with disabilities in areas faced with high displacement pressure, the potential disruption of access to existing supportive services and support networks is also prevented, which in turn supports independent living.

The Assessment of Fair Housing found that San José is a diverse, yet segregated, city, with no single racial or ethnic group as a majority, but for the three largest racial/ethnic groups (in order by size of population: 1. Asian Americans, Native Hawaiians, and Pacific Islanders (AAPIs); 2. Latino/a/x; 3. Non-Hispanic Whites), there are parts of the City where one group or the other is a majority.

The Assessment overlaid TCAC/HCD Opportunity Map categories to reveal specific patterns of segregation in San José which disadvantage some residents while privileging others. Majority or plurality populations living in low-resource neighborhoods include: Latino/a/x (54%), Southeast Asian Americans (50%), Native Hawaiian and Pacific Islanders (49%) and Native American /

indigenous people (43%). These findings align with data reported in the City's Consolidated Action Report 2021-2025 which found that both extremely low-income American Indian/Alaska Native households (115) and Hispanic households (16,030) have a disproportionate need in terms of severe housing problems, and while Black/African American households' (2,025) severe housing problems did not rise to the strict standard of disproportionate need, that was 6 percent higher than the jurisdiction as a whole and thus warranted monitoring.

Furthermore, the Assessment found that areas of City that are at higher risk of displacement also have higher concentrations of vulnerable communities of color. Latino/a/x, Southeast Asian, Black, and Native American residents disproportionately live in neighborhoods with greatest displacement risk. Non-Hispanic White and Asian Indian and Chinese Americans disproportionately live in neighborhoods that are exclusionary or are becoming more exclusionary. The disparate impact of these patterns of risk and exclusion necessitate that displacement be addressed as a fair housing issue.

Given the primary nature of race toward the patterns of segregation in San José, the risk of displacement from existing neighborhoods as well as the risk of increasingly intensifying exclusion from high-opportunity neighborhoods, the City has taken a multifaceted approach to addressing the housing needs of communities of color. The City aims to reduce the loss of affordable units both through increase production of units and through preservation. This proposal for improvements to preservation policy and its implementation programs directly respond to the needs identified by underserved communities of color.

The Assessment of Fair Housing included a coverage gap analysis for housing for persons with disabilities which included housing affordability, lack of supportive services and housing, challenges to accessibility given the pre-ADA age of a supermajority of San José's housing stock and housing discrimination.

Mitigating Displacement Risk

Mitigating the ongoing risk of displacement for low-income residents of San José forms one of the central underlying goals of this proposal. In the absence of an acquisition/rehab program, market forces in San José are likely to propel medium-density NOAH rental properties to sell to the highest bidder, likely with the intentions of drastically increasing rents that existing tenants are unlikely to be able to afford. This proposal was intentionally prepared as an anti-displacement measure.

Equity Related Educational Resources

The San José Housing Department (SJHD) has undertaken multiple comprehensive community engagement processes in the last five years with key stakeholders for the activities contemplated in this proposal. One engagement process was for the City's most recent Housing Element Update and accompanying Assessment of Fair Housing, another for the City's 2020 Anti-Displacement Strategy and a follow up for the Community Opportunity to Purchase Act (COPA) from 2021 to 2023. In addition, other public policy initiatives have included community engagement initiatives that overlap with issues of affordable housing; the Diridon Station Area

Plan, for instance, included a community engagement process that revealed affordable housing and displacement as the top issues of concern from community members who participated.

Between the Fair Housing Assessment and Anti-Displacement Strategy, SJHD identified a broad range of stakeholder groups from whom to solicit feedback. The community engagement process for the Fair Housing Assessment spanned three years (2019 to 2022), totaling over 100 community meetings, focus groups, and stakeholder meetings. Twenty-one individual focus groups, often concentrating on members of protected classes, were held during this process, generating valuable community feedback. In addition, 51 meetings were held with distinct stakeholder groups, including housing industry groups (for-profit developers, non-profit developers, realtors, apartment associations), community advocacy organizations (NAACP, Latinos United for a New America, League of Women Voters, etc.), and other stakeholder groups. During the three-year window, SJHD conducted three surveys with a combined 2,103 responses, and administered 26 public and community meetings addressing various aspects of the updated Housing Element.

SJHD also conducted an in-depth process of community engagement in preparation of its citywide anti-displacement strategy, spanning late 2018 through early 2020. This engagement included eight interviews of community leaders in City Council districts particularly impacted by displacement pressures. SJHD then conducted five renter focus groups, nine community forums, and an additional survey of San José residents. Finally, SJHD staff conducted additional outreach to realtors and other stakeholders.

Following the completion and council approval of the citywide anti-displacement strategy, San José created an Anti-Displacement Implementation Working Group, with the help of its community engagement consultants (Baird + Driskell), to produce an intense six-month public outreach campaign that culminated in the May 2023 Community Opportunity to Purchase (COPA) proposal. When asked what would make COPA a success, participants named “support for building infrastructure for nonprofit buyers including preparation, resources and support throughout the transaction process.” Smaller nonprofit developers expressed a desire for technical assistance.

Moving forward, SJHD and the City have a number of staffing arrangements and working groups to facilitate ongoing community outreach during the administration of PRO Housing funds. SJHD plans to re-convene its Anti-Displacement Working Group on an ongoing basis, assembling a broad cross-section of relevant stakeholders and community members particularly impacted by displacement pressures. SJHD has built in ongoing mechanisms for outreach into the disability and homelessness-impacted populations; SJHD employs a part-time senior development officer, who is also a disability advocate, who is tasked with facilitating increased disability access to SJHD’s housing programs, deeper ties between SJHD and the disability community, and ongoing best practices for disability access. In addition, SJHD staffs a homeless outreach team, regularly interfacing with the unsheltered homeless population.

San José’s recent Notice of Funding Availability which makes preservation funds available to prospective developers requires applicants to answer the following questions to demonstrate how the proposed project will address racial barriers and disparities in housing opportunities:

1. How will the applicant ensure equitable access to housing and services for racial groups that are overrepresented within low-income households?
2. How will the applicant consider the voices of those with lived experience in the design of the proposal?

3. How does the applicant plan on partnering with organizations that address racial equity in housing response?

The City contracts with the Law Foundation of Silicon Valley to coordinate a consortium of fair housing service providers (“consortium”). Through this contract, five programs provide services to support fair housing in San José. These programs include the Asian Law Alliance (ALA), Mental Health Advocacy Project, Project Sentinel (PS), and Senior Adults Legal Assistance (SALA). These programs help make housing available to all through community education and by enforcing the fair housing laws. Through investigation, direct representation, and individual counseling, the programs provide free legal services to people who have experienced discrimination in acquiring or keeping housing in San José.

In addition to legal services and representation, the consortium provides ongoing Fair Housing outreach and education services related to Fair Housing on behalf of the City. This work included group trainings on housing discrimination and fair housing rights. From July 2019 to June 2021, collectively the consortium provided 52 educational and outreach events. Performance measures for these events report that 80% of presentation attendees at Fair Housing Presentations are more educated and familiar with the laws governing housing.

Project Sentinel hosted a Fair Housing Symposium on April 21st and May 7th of 2021. Over 200 people participated in the symposium.

Engaging Minority Owned Businesses and Tracking Progress

The City’s request for proposals includes a points-based scoring system which awards points to organizations with a community-based Board. Points will also be awarded for organizations with a local office in the County of Santa Clara. The objective of these scoring measures is to support small and local organizations, which are more likely to be nonprofit organizations led by or responsive to the needs of local communities of color.

What are your budget and timeline proposals?

Budget & Timeline Description

This proposal anticipates a roughly \$15 million budget to be spent across the six-year life of the program. Between FY24 and FY29, SJHD anticipates using \$10 million of PRO Housing funds to leverage an additional \$5 million of local funding from its Measure E revenue (a local housing transaction tax passed in 2019) for this proposal. SJHD anticipates expending roughly 50% of its budget within the first two years of the program, with the remaining 50% being expended evenly over the four subsequent years. For PRO Housing funds, this amounts to \$2.5 million being spent in both FY24 and FY25, with \$1.25 million being spent each year for FY26-FY29. For Measure E funds, SJHD anticipates using an analogous split, with \$1.5 million being spent in both FY24 and FY25, and \$750,000million being spent each year for FY26-FY29.

SJHD, following a review of local costs, as well as regional preservation programs, is making the following assumptions for budgetary purposes:

- Acquisition costs at \$150,000/unit, which SJHD anticipates using for 70 units over the life of the program
- Rehabilitation costs at \$50,000/unit, which SJHD anticipates will be needed for 40 units over the life of the program (or, roughly half of the units acquired will require rehab)
- Program delivery/technical assistance costs totaling \$1.2 million over the life of the program, for which SJHD anticipates will be spread across three different non-profit developers who will be the focus of capacity building efforts
- Architectural fees associated with rehabilitations at \$5,000 per unit, which SJHD anticipates may be needed for 50 total units over the life of the program
- Legal fees associated with acquisitions at \$10,000 per transaction, which SJHD anticipates will be needed for 10 total transactions over the life of the program
- Appraisal fees associated with acquisitions at \$1,000 per transaction, which SJHD anticipates will be needed for 10 total transactions over the life of the program

In addition, SJHD is budgeting roughly 7.5 percent of its PRO Housing funds for personnel and fringe benefits (Categories 1 and 2 in form 424-CBW), or \$754,000, to be matched with \$754,000 in Measure E funds, for a total of \$1.508 million of non-programmatic, administrative expenses. This will allow us to add two additional staff members who can support implementation, engage with developers and community groups and ensure that recommended changes are made.

This proposal anticipates three broad categories of expenditure, not including the aforementioned administrative expenses: (1) Program Delivery/Technical Assistance, (2) Acquisition Expenses, and (3) Rehab Expenses. SJHD plans to use a mix of PRO Housing funds and Measure E revenue across all three expenditure categories. However, PRO Housing funds will serve as the primary source of program delivery funds, while Measure E funds will serve as the primary source of acquisition and rehab expenditures.

Program Expenditures, Excluding Personnel and Fringe Benefits (Preliminary Estimate)

	FY24	FY25	FY26	FY27	FY28	FY29	Total
Program Delivery	\$300k	\$300k	\$150k	\$150k	\$150k	\$150k	\$1.2M
PRO Housing portion	\$50k	\$50k	\$25k	\$25k	\$25k	\$25k	\$200k
Measure E portion	\$250k	\$250k	\$125k	\$125k	\$125k	\$125k	\$1.0M
Acquisition	\$2.67M	\$2.67M	\$1.33M	\$1.33M	\$1.33M	\$1.33M	\$10.66M
PRO Housing portion	\$2.02M	\$2.02M	\$1.01M	\$1.01M	\$1.01M	\$1.01M	\$8.08M
Measure E portion	\$645k	\$645k	\$323k	\$323k	\$323k	\$323k	\$2.58M
Rehab	\$563k	\$563k	\$281.5k	\$281.5k	\$281.5k	\$281.5k	\$2.25M
PRO Housing portion	\$25k	\$25k	\$12.5k	\$12.5k	\$12.5k	\$12.5k	\$100k
Measure E portion	\$538k	\$538k	\$269k	\$269k	\$269k	\$269k	\$5.15M