



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: August 20, 2021

Approved

Date

SUBJECT: APPROVE THE AFFORDABLE HOUSING SITING POLICY

RECOMMENDATION

- (a) Accept the staff report regarding the proposed City of San José's Affordable Housing Siting Policy, including an annual report to the Community and Economic Development City Council Committee, and authorize a plan that is applicable to all housing developments that accept Housing Department funding, based on the distribution of homes as follows:
 - (1) In Phase One (initial three-year period effective July 1, 2021), 30 percent of affordable homes located in Category 1 neighborhoods, 50 percent in Category 2 neighborhoods, and 20 percent in Category 3 neighborhoods, as shown in the Siting Policy Map;
 - (2) In Phase Two (after initial three-year period), 60 percent of affordable homes located in Category 1 neighborhoods, 30 percent in Category 2 neighborhoods, and 10 percent in Category 3 neighborhoods;
 - (3) Limit funding in high-impacted census block groups where 50 percent or more of existing homes are deed-restricted and the block group contains 200 or more homes.
- (b) Adopt a resolution approving the Affordable Housing Siting Policy and the Affordable Housing Siting Policy Maps, and repealing the former Dispersion Policy under Resolution 67604; and
- (c) Direct the Housing Department to identify potential nonprofit partners to administer a predevelopment and land acquisition loan program for sites in Category 1 neighborhoods.

OUTCOME

Approval of the recommended actions will enable the City to pursue the City's Affordable Housing Siting Policy (Siting Policy) objectives to both expand affordable housing in opportunity areas and promote affordable housing choice throughout the entire City.

EXECUTIVE SUMMARY

The purpose of the Siting Policy is to increase affordable housing choice through equitable development that meets the needs of underserved residents, reduces disparities among communities and continues to build vibrant and healthy places. The Siting Policy is intended to find the right balance in order to achieve multiple objectives including creating much needed affordable housing while ensuring that choice and housing opportunities for lower income households are available throughout the City. The Siting Policy has been shaped to provide this balance using a data driven approach which included policy analysis, stakeholder engagement, and staff input.

To meet fair housing requirements, cities that receive federal housing funds must take meaningful actions to affirmatively furthering fair housing choice. In developing the Siting Policy to align with fair housing laws, the City is working to remove barriers to accessing housing, to increase low-income housing in opportunity areas, and to identify ways to rebalance the distribution of affordable housing in existing and pipeline affordable housing developments across neighborhood categories. The City intends this policy to provide a "both/and" approach to affirmatively furthering fair housing – where low-income people both have increased access to opportunity area neighborhoods and where there is intentional investment to increase resources in historically underserved neighborhoods.

This memorandum provides the consultant report (**Attachment A**), proposed Affordable Siting Policy (**Attachment B**), and feedback from various community and developers engagement meetings including meetings with affordable housing developers. The City's goal is to develop affordable housing in both high-income and low-income areas; increase access to affordable housing, prevent displacement; and provide quality affordable housing where people from different races and ethnicities can live and thrive in the City of San José.

BACKGROUND

In 1988, shortly after the formation of the Housing Department, the City Council approved "San José: A Commitment to Housing" – the Final Report of the Mayor's Task Force on Housing. One of the policy statements adopted as a part of that approval was the Dispersion Policy, which encouraged the development of affordable housing throughout the City and in every Council District to promote economic integration. Under this policy, "no area of the City should be arbitrarily precluded from consideration as a site for affordable housing."

In 2017, the City Council voted to pause implementation of the Dispersion Policy to allow for an update to the policy to align with the Envision San José 2040 General Plan (General Plan) and with federal and state guidance on fair housing. Staff determined that the Dispersion Policy was outdated and inconsistent with the goals and objectives of the General Plan.

In 2019, the City released a Request for Proposal to assist with the creation of a data driven approach to the Siting Policy. The City selected the California Housing Partnership and the Othring and Belonging Institute to assist the Housing Department in developing the proposed policy. The Housing Department staff worked with the consultant team to develop Siting Policy recommendations.

ANALYSIS

Addressing the Bay Area’s housing crisis is one of the most difficult challenges facing local decision makers, and the scope of the problem continues to exacerbate. The City should seek the appropriate balance between funding much needed affordable housing while ensuring that choice and opportunity are provided throughout the City. Ultimately, the need for affordable housing is so great throughout the City that it is critical that affordable housing production not be stalled by the implementation of the new Siting Policy.

A. Priorities for Developing the Affordable Housing Siting Policy

The Siting Policy is one of several policies intended to help the City distribute affordable housing throughout the City. The policy’s objective is to consider the long-term success and stability of low-income households residing in affordable housing developments in San José. Research shows that increasing access to affordable housing is the most cost-effective strategy for reducing childhood poverty and increasing economic mobility in the United States¹.

The four priorities below were identified as critical when considering the development of the Siting Policy:

1. Aligning with federal and state affirmatively furthering fair housing (AFFH) laws and obligations;
2. Increasing affordable housing availability in opportunity areas;
3. Mitigating displacement of low-income residents; and
4. Creating a policy that is easily administered by City staff and understood by everyone.

¹ <https://nlihc.org/explore-issues/why-we-care>

Affirmatively Furthering Fair Housing (AFFH)

While San José is the 10th largest City in the United States, residents struggle to find and maintain safe, decent, and affordable housing. In order to achieve the City’s objectives, the Siting Policy adheres to the AFFH mandate to conduct in-depth analysis of patterns of segregation, concentration of poverty, and lack of equal opportunity.² To ensure the Siting Policy is consistent with fair housing laws, the City is working to remove barriers to accessing housing, increasing low-income housing in opportunity areas, and identifying ways to rebalance the distribution of affordable housing in existing and pipeline affordable housing developments across neighborhood categories.

Increase Access to Opportunity Areas

To enable access to high quality housing for all residents, the Siting Policy encourages increasing affordable housing in opportunity areas, referred to as resource-rich areas in the Siting Policy. Research shows that opportunity areas have characteristics associated with upward mobility, educational attainment, physical and mental health, and other positive outcomes, particularly for children. In 2020, the California Tax Credit Allocation Committee (TCAC) adopted incentives to affordable housing developers who selected sites located in opportunity areas identified in their Opportunity Maps. These incentives increase the likelihood that developments in opportunity areas receive TCAC allocations. The Siting Policy and TCAC opportunity areas are identical.

Mitigating Displacement

On June 12, 2018, the San José City Council adopted the Housing Crisis Response Workplan. As part of that Workplan, the City Council directed the Housing Department to develop a Citywide Anti-Displacement Strategy (adopted by Council on September 22, 2020). As part of the City’s strategy, a focus on the Envision San José 2040 General Plan identified growth areas concentrating on jobs and housing growth, including the development of affordable housing. These specific Growth Areas are to be prioritized in the following areas - Urban Villages, the Downtown Growth Area, Specific Plan Areas, and the North San José Transit Employment Resident Overlay. As San José grows and secures planned investments, it is the City’s intent that vulnerable residents of these neighborhoods are not displaced by the City’s actions and that they can benefit from the increased opportunities associated with the planned transformative investments in jobs, transit, and economic development. The policy is structured with a “both/and” approach to affirmatively furthering fair housing – where low-income people *both* have increased access to opportunity area neighborhoods *and* where there is intentional investment to increase resources in historically underserved neighborhoods.

² AB 686 Assembly Floor Analysis, Mar. 23, 2018, p.1,

https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201720180AB686

Administration of the Policy

As the Siting Policy was developed, staff wanted to ensure the implementation of the policy was straightforward and understandable to developers and the public. The policy focuses on three neighborhood categories and provides an aggregate goal over a multi-year period. Providing direction for affordable housing developers several years in advance provides clarity and predictability for developers seeking to secure sites for future development.

B. Summary of Affordable Housing Siting Policy Recommendations

In preparation for developing the Siting Policy, the Consultants prepared a full report including research and policy recommendations. The full report is included as **Attachment A**. Staff has carefully considered these recommendations and has developed both the proposed Affordable Housing Siting Policy (**Attachment B**) and implementation and action items that will support the policy goals over time. This section outlines both the policy and the associated actions. The Affordable Housing Siting Policy Maps are included as **Attachment C** to this report. A briefing sheet summarizing the proposed Siting Policy and action items is included as **Attachment D**.

Applicability of the Siting Policy

The Siting Policy applies to Inclusionary Housing Ordinance Off-Site units and to units that meet all of the following criteria:

1. Site is located in the City of San José;
2. Will receive funding from the City;
3. Will have a City affordability restriction; and
4. Will have rents that do not exceed 30% of 80% of the Area Median Income (AMI).

Additionally, for the purposes of policy evaluation, regarding the City's overall distribution goal for affordable housing, all affordable housing units that have a rent restriction up to 80% AMI and below will be included in the analysis, regardless of how it was financed or the beneficiary of the affordability restriction. For example, if an affordable housing development is built with no city funding in a Category 2 neighborhood, the affordable homes will be included in the overall evaluation of the Siting Policy.

Neighborhood Categories

To achieve the City's priorities, the Siting Policy identifies high-level goals based on three neighborhood categories organized according to their characteristics' association with positive outcomes for residents—meaning Category 1 neighborhoods have characteristics most associated with positive outcomes, followed by Categories 2 and 3, respectively.

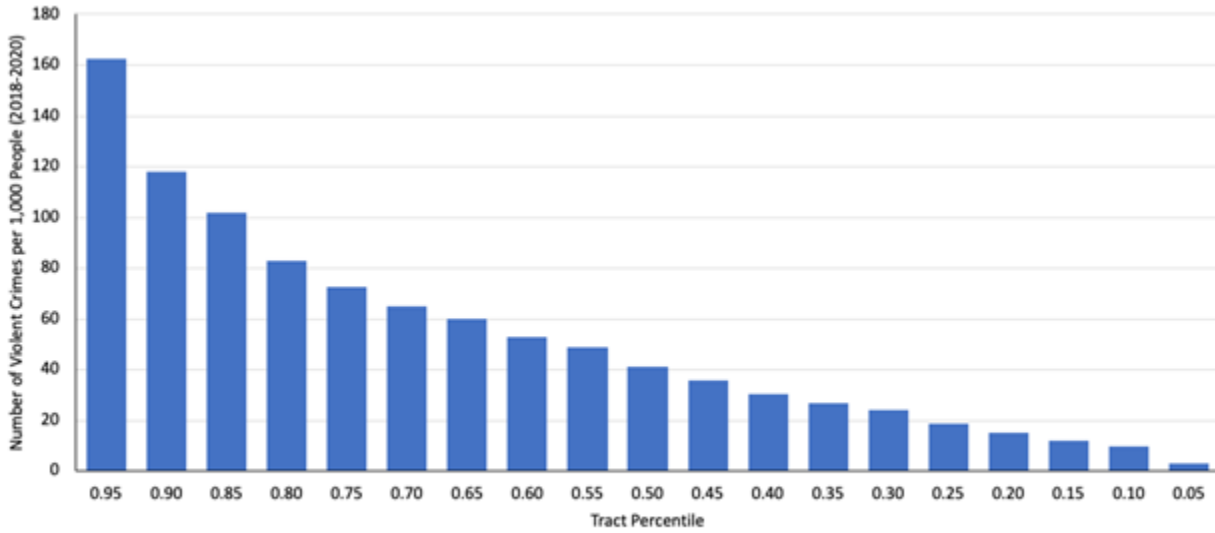
Neighborhood characteristics used to establish the overall neighborhood categories include opportunity areas, high poverty areas and highest violent crime areas. The criteria to measure these areas is summarized in Table 1.

Table 1: *Criteria Used to Develop Neighborhood Characteristics*

Characteristic	Criteria
Opportunity Areas	These neighborhoods have characteristics associated with upward mobility, educational attainment, physical and mental health, and other positive outcomes, especially for children. These areas are identified as High or Highest Resource Areas in the California Tax Credit Allocation Committee (TCAC)/Housing and Community Development (HCD) Opportunity Map, meaning they rank in the top 40% of census tracts in the Bay Area according to indicators associated with positive economic, educational, and health outcomes for residents.
High Poverty Areas	These are areas identified where more than 20% of the households living in the area fall below the federal poverty line.
Highest Violent Crime Areas	Highest violent crime areas are neighborhoods where exposure to violent crime is especially high relative to the rest of the San José. Areas are defined as highest violent crime if they rank above the 95th percentile in violent crime rate per 1,000 people in San José from 2018-2020 for the four violent crime categories tracked by the San José Police Department— rape, homicide, robbery, and aggravated assault—which align with the Federal Bureau of Investigation’s Uniform Crime Reporting (UCR) program and most studies examining the association between violent crime and resident outcomes: rape, homicide, robbery, and aggravated assault.

The threshold for highest rates of violent crime was selected based on an analysis of the distribution of tract-level violent crime rates in San José from 2018 to 2020 as reported by the San José Police Department. During this period, the difference in violent crime rates between tracts five percentage points apart in the citywide distribution (e.g., 50th percentile violent crime rate tracts compared to 45th percentile tracts) was modest and represented incremental change, up to the 90th percentile. However, the violent crime rate for 95th percentile tracts was substantially higher than 90th percentile tracts, suggesting that tracts in the top five percent in the citywide distribution experienced meaningfully higher rates of violent crime than the rest of the city, including even tracts in the 90th percentile. Table 2 below shows violent crime rates by percentile.

Table 2: *Highest Violent Crime Rates by percentile*



Source: San José Police Department 2018-2020. Violent crime includes rape, homicide, robbery, and aggravated assault.

Selecting criteria to evaluate neighborhood areas is challenging and at times may be limited to the data available for the analysis. The study completed by the consultants utilized accessible data sources used in research across the country to evaluate neighborhoods. Additional criteria were considered such as transit accessibility, displacement risk and neighborhood amenities. These measures are important to the development of affordable housing and are included in the scoring criteria for funding decisions made by the City. The three characteristics described in **Table 1** were selected as the most critical in determining long-term outcomes for the residents of affordable housing. Using this criteria, Category 1, 2 and 3 neighborhoods were defined.

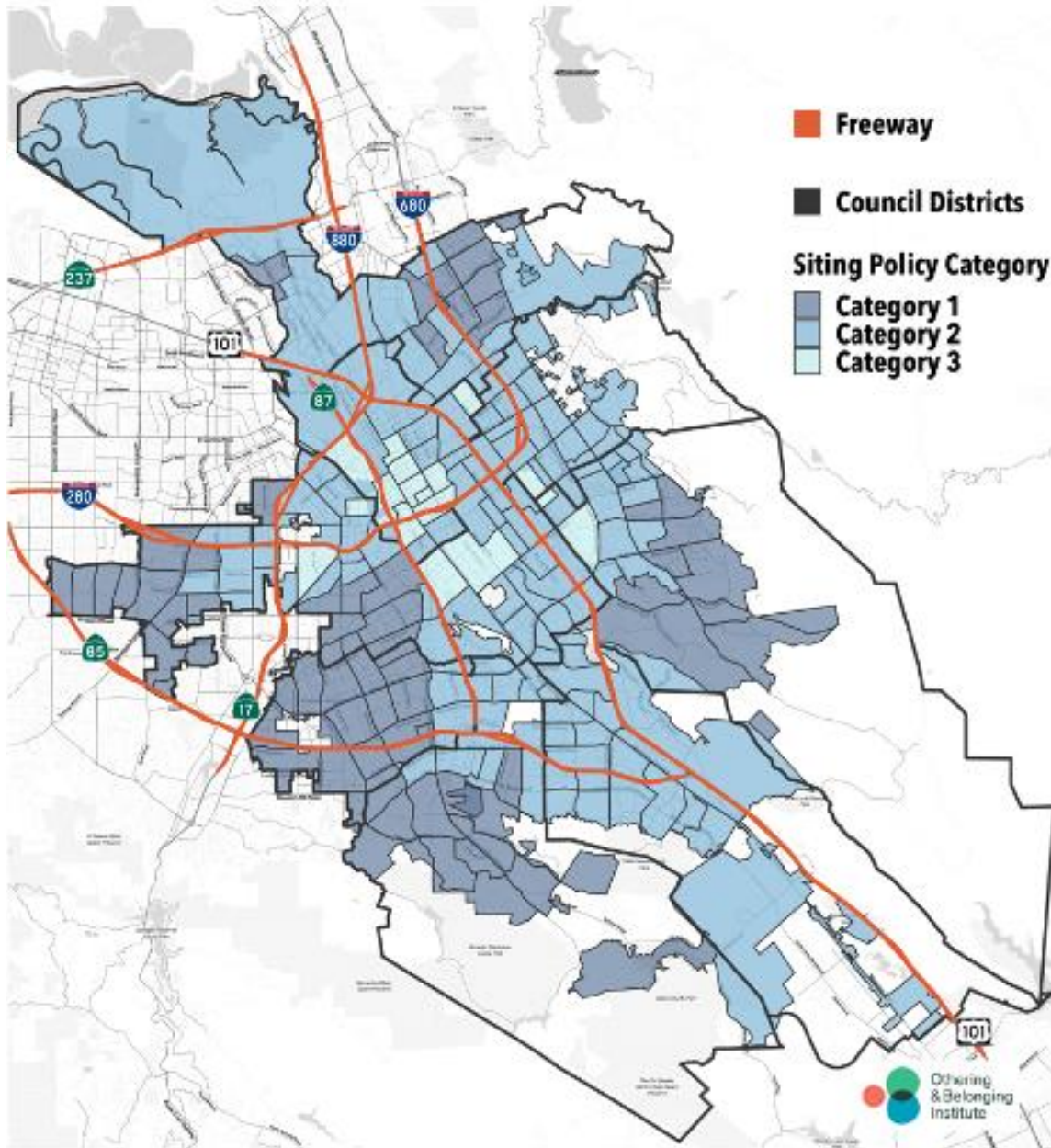
Category 1. Category 1 neighborhoods are resource-rich areas. Transit-accessible areas and Growth Areas should be prioritized within this geography (all tracts in this category are displacement and exclusion risk areas). Thirty-four percent of census tracts in San José are Category 1 neighborhoods.

Category 2. Category 2 neighborhoods do not meet the criteria for resource-rich areas, but they are neither high-poverty nor highest rates of violent crime. Displacement and exclusion risk areas, transit-accessible areas, and Grow Areas should be prioritized within this geography. Fifty-nine percent of census tracts in San José are Category 2 neighborhoods.

Diridon Station Area growth area is proposed to be categorized as Category 2 despite a portion of this area falling within census tracts that currently meet the criteria for Category 3 due to anticipated substantial investment in transit infrastructure, housing development, and office and commercial development in the coming years.

Category 3. Category 3 neighborhoods are high-poverty, highest rates of violent crime, or both. Displacement and exclusion risk areas and Growth Areas should be prioritized within this geography (all tracts in this category are transit-accessible). Seven percent of census tracts in San José are Category 3 neighborhoods. The portion of census tracts that meet the highest-crime and/or high-poverty criteria but overlap with the Diridon Station Area growth area is proposed to be categorized as Category 2.

Map 1: *Neighborhood Categories to Inform the Siting Policy*



Accounting for Different Populations

The geographic criteria to be included in the Siting Policy do not vary by population served for research-based and practical reasons. The methodology used to identify resource-rich areas includes measures of school quality, which relate most directly to households with children. Two thirds of the total score for each census tract determining whether it is categorized as resource-rich relates to neighborhood characteristics associated with outcomes for both children and adults, such as exposure to pollution and measures of economic resources and opportunity. Resource-rich neighborhoods are defined holistically, across several key dimensions of resources and opportunity, and for multiple populations.

From a practical perspective, applying a single set of neighborhood criteria to different populations aligns with state funding program incentives. This is an overall advantage to affordable housing developments which face strong competition for funding at the state level. Aligning the local Siting Policy with Opportunity Areas at the state level will provide a competitive advantage for affordable housing developments located in Category 1 neighborhoods, regardless of the target population.

As staff evaluates the effectiveness of the Siting Policy target populations, such as family, senior, and supportive housing, it will be included in the analysis. Any uneven distributions identified in the analysis will be addressed by adjusting the scoring criteria used by the City to determine funding allocations.

Existing and Future Affordable Housing Developments

For the purposes of this analysis, affordable housing developments were separated into categories, as described below:

- **Existing:** Affordable homes in developments that are currently in operation or which have completed construction.
- **Pipeline:** Affordable homes in developments that have received City funding commitments, California Tax Credit Allocation Committee Low Income Housing Tax Credit awards, or which are under construction.
- **Prospective:** All other affordable housing not yet under construction, does not have a City funding commitment, but has submitted a preliminary application to the Planning Division and has indicated that the development will have an affordable housing component.

Existing and pipeline affordable homes are designated by the Housing Department by population served: Family, Senior, and Special Needs. Prospective developments are generally too early in the development process to determine the target population.

Table 3 below provides an overview of both current affordable housing data and developments in the pipeline by neighborhood category and household type.

Existing Distribution of Affordable Housing

The consultants evaluated existing and pipeline affordable housing and determined their location in Category 1, 2, and 3 neighborhoods. The analysis also breaks down the distribution by property type. A summary of results is included in Table 3.

Table 3: Current Distribution of Affordable Housing in The City of San José

	Share of Cityside Census Tracts*	% of Current & Pipeline Affordable housing	% of Current & Pipeline Affordable housing by Property Type
Category 1	34%	9%	Family = 8% Senior = 17% Supportive/Special Needs = 1%
Category 2	59%	68%	Family = 71% Senior = 61% Supportive/Special Needs = 66%
Category 3	7%	23%	Family = 21% Senior = 22% Supportive/Special Needs = 33%

Note: Due to data limitations, this analysis considers the portion of the Diridon Station Area Plan falling within high-poverty and/or high-crime areas to be a Category 3 area, even though it is proposed to be defined as Category 2.

**The share of citywide census tracts in each neighborhood category corresponds almost exactly to the share of citywide population.*

Only nine percent of affordable housing homes are located in Category 1 neighborhoods, which comprise 34 percent of census tracts in San José. Although most affordable housing in Category 1 neighborhoods are in developments categorized by the Housing Department as serving families, homes in developments categorized as serving seniors have proportionally higher representation in these neighborhoods (17 percent) relative to the share of homes in senior developments across the entire City. The percentage of affordable housing in family developments (eight percent) and special needs developments (one percent) is lower in these neighborhoods. There are limited affordable housing choices available for lower-income households to live in Category 1 neighborhoods.

The share of affordable housing in Category 2 neighborhoods (68 percent) is somewhat higher than the share of citywide tracts in this category (59 percent), though this varies by population served. The share of affordable housing in family developments located in Category 2 neighborhoods (71 percent) is higher than the shares for affordable housing in special needs developments (66 percent) and affordable housing in senior developments (61 percent).

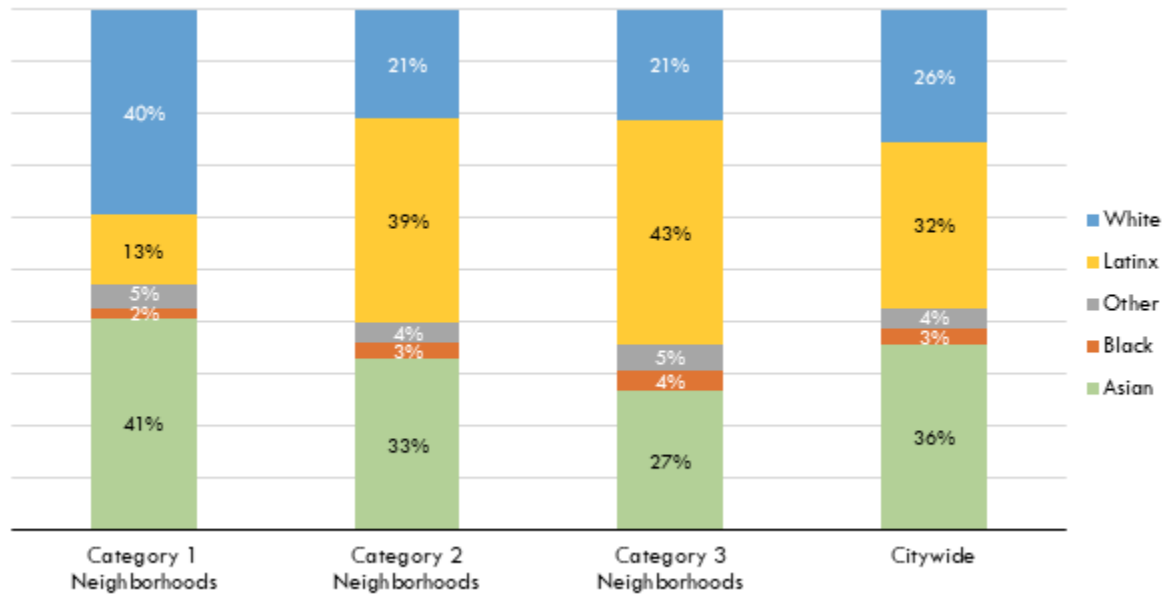
Although Category 3 neighborhoods comprise only seven percent of tracts, they contain 23 percent of the City’s affordable housing, including 33 percent of homes in special needs developments. 21 percent of affordable housing in family developments and 22 percent of affordable housing in senior developments are located in Category 3 neighborhoods.

In order to meet the City’s Siting Policy goals, a rebalancing of where affordable housing is developed within the City will be required. Staff will continue to track the distribution of affordable housing by housing type over time. If successful, the policy will ultimately lead to a greater balance in availability of quality affordable housing across the City’s neighborhoods.

Neighborhood Demographics

The study evaluated the race and ethnic composition of Category 1, 2, and 3 neighborhoods. White and Asian residents are overrepresented in Category 1 neighborhoods and underrepresented in Category 2 and 3 neighborhoods relative to their respective shares of the City’s population, while the opposite is true for the City’s Latino/a/x and Black residents. Table 4 shows the racial and ethnic demographics in San José (all incomes).

Table 4: Racial and Ethnic Demographics in San José (All Incomes)



Data Source: American Community Survey 5-year Estimates, 2015-2019. White residents are non-Hispanic and Latinx residents are those of any race who identify as Latino or Hispanic ethnicity. Asian residents do not include Pacific Islander residents, who are included in the Other category (not displayed).

These disparities could exist for several reasons, including discrimination in the housing market, information gaps among the City’s Latino/a/x and Black low-income residents about available affordable homes and neighborhood amenities in Category 1 neighborhoods, fewer affordable housing opportunities in Category 1 neighborhoods, and a desire among some to remain in areas where they have stronger community networks.

In order for affordable housing to be proportionally distributed across the City, the Siting Policy's high-level goals during Phase One and Phase Two will guide the investment of City funds and the distribution of the affordable homes.

Affordable Housing Siting Policy

The Siting Policy guides the distribution of future funding and the distribution of affordable housing homes by neighborhood categories over time to achieve the City's objective to promote housing choice and development of affordable housing throughout San José. The Siting Policy applies to low income affordable homes developed throughout the City, defined as 80% of the AMI and below. The distribution of homes per category is not intended to be an annual allocation but the percentage distributions should be met by the end of the specified funding period. For example, in Phase 1, the distribution targets by category, should be achieved by the end of the three year period. Table 5 shows the distribution of affordable homes by category.

Phase one: During an initial three year phase-in funding period effective July 1, 2021, distribute 30 percent of the affordable homes in Category 1 neighborhoods, 50 percent in Category 2 neighborhoods, and 20 percent in Category 3 neighborhoods. This "phase-in" period acknowledges that existing affordable housing pipelines in San José are concentrated in Category 2 and 3 neighborhoods. Future Notice of Funding Availability Applications will prioritize developments located in Category 2 and 3 neighborhoods with signed purchase agreements dated before September 24, 2019; this is the date when the City Council took action to direct funding for affordable housing to growth areas throughout the City including North San José, Diridon Station Area, Downtown, West San Carlos Urban Village, Berryessa Bay Area Rapid Transit (BART) Urban Village and the Blossom Hill/Snell Avenue Urban Villages, and limited funding commitments until the Siting Policy was completed. The upcoming Notice of Funding Availability will be subject to the Siting Policy.

Phase two: After the initial three year phase-in period, distribute 60 percent of affordable homes in Category 1 neighborhoods, 30 percent in Category 2 neighborhoods, and 10 percent in Category 3 neighborhoods.

Table 5: Distribution of Affordable Homes by Category

Neighborhood Categorizations	Description	Percentage of Census Tracts in the City	Current Distribution of Existing and Pipeline Affordable housing	Phase One Distribution High-Level Goal (% of Affordable housing)	Phase Two Distribution High-Level Goal (% of Affordable housing)
Category 1	Opportunity Areas	34%	9%	30%	60%
Category 2	Areas that are not opportunity areas, nor are they high-poverty or high-crime	59%	68%	50%	30%
Category 3	High-poverty and/or high-crime areas	7%	23%	20%	10%

Note: Due to data limitations, this analysis considers the portion of the Diridon Station Area Plan falling within high-poverty and/or high-crime areas to be a Category 3 area, even though it is proposed to be defined as Category 2.

The prioritization of funding, based on the distribution of homes, in these areas will address the current uneven distribution of affordable housing throughout the City. Over time, this policy will create more opportunities for low-income people to have housing choices across the City.

Limit Funding in High-Impacted Census Block Groups

To ensure affordable housing residents have a meaningful range of local choices, the City will consider limiting future affordable housing developments in census block groups where 50 percent or more of existing homes are deed-restricted and the block group contains 200 or more affordable housing homes, unless 1) the block group is located within a census tract where low-income people are already underrepresented or face displacement pressure, or 2) the block group overlaps partially or wholly with a City-designated Growth Area, in which case the limitation would only apply to the portion of the block group that is not within a Growth Area. An exemption to the policy will require City Council approval. Further analysis of this recommendation can be found in the consultant report.³

Implications to the Inclusionary Housing Ordinance

The Inclusionary Housing Ordinance includes an option for market rate developers to meet their obligation under the ordinance by developing affordable housing through the offsite construction option (Municipal Code Section 5.08.510). This option allows the developer to provide 20% of the number of market rate homes as affordable inclusionary housing homes on an offsite location. Where the Inclusionary Housing Ordinance requires these to be in located in the same “Opportunity Area” as the market rate homes, the criteria shall mean that offsite location must be in the same or lower neighborhood category as defined by the Siting Policy. For example, if the market rate housing development was built in a Category 2 neighborhood, the offsite affordable

³https://www.dropbox.com/s/l1pqvr7hikxelco/San%20Jose%20Siting%20Policy%20Report_June%209%202021.pdf?dl=0

housing development must be built in either a Category 2 or a Category 1 neighborhood to comply with the policy.

C. Affordable Housing Prospective Pipeline

When considering the proposed Siting Policy, it is critical to understand the amount of funding available over the coming years and the implications of the proposed policy. Staff estimated the level of funding available over the coming eight years and applied the proposed categories to determine the estimated number of affordable homes and developments that may be funded in each neighborhood category. Assuming that the developer requests a maximum per unit subsidy of \$125,000 per unit, this analysis found **432** affordable homes or approximately four developments, may be funded in Category 1 neighborhoods, 720 affordable homes or approximately seven developments in Category 2 neighborhoods, and 288 affordable homes or approximately three developments in Category 3 neighborhoods. Table 6 provides a summary of these estimated outcomes.

Table 6: *Prospective Affordable Housing Funding Allocation*

Neighborhood Category	% Allocation	Estimated Funding	Estimated Number of Homes	Estimated Number of Developments
Phase One - Three Years				
Category 1	30%	\$ 54,000,000	432	4
Category 2	50%	\$ 90,000,000	720	7
Category 3	20%	\$ 36,000,000	288	3
Total		\$ 180,000,000	1,440	14
Phase Two - Five Years				
Category 1	60%	\$ 120,000,000	960	9
Category 2	30%	\$ 60,000,000	480	5
Category 3	10%	\$ 20,000,000	160	2
Total		\$ 200,000,000	1,600	16

Understanding the limited number of affordable homes and the potential developments in each neighborhood category, the Housing Department gathered a list of prospective developments throughout the City to evaluate the location of these developments. Prospective developments are defined as currently moving through the entitlement process as a preliminary review application. While not yet approved, developers have indicated through their Affordable Housing Compliance Plans that they plan to develop income-restricted affordable homes. The greatest number of prospective developments lie in Category 2 neighborhoods, while only one development is located in Category 1 neighborhoods and 11 in Category 3 neighborhoods. Table 7 provides a summary of prospective affordable housing development by neighborhood category.

Table 7: Summary of Potential Prospective Affordable Housing Developments

Neighborhood Category	Estimated Number of Homes	Estimated Number of Developments
Category 1	319	1
Category 2	6,533	24
Category 3	899	11
Total	7,751	36

Fund an Acquisition and Predevelopment Loan Program

Based on Table 6, the distribution of homes across neighborhood categories, there is capacity for thirteen developments in Category 1 neighborhoods over the coming eight years. There is, however, only one development included as a prospective affordable housing development located in a Category 1 neighborhood (Table 7). Understanding the need for acquisition of sites in Category 1 neighborhoods, the Housing Department is recommending setting aside funds for site acquisition and predevelopment in Category 1 neighborhoods as an incentive to assist affordable housing developers. The Housing Department will release a request for proposals to identify a Community Development Financial Entity (CDFI) that can manage the fund. A CDFI is more nimble and may be able to leverage City funds to increase the amount of funding. This strategy was effective in incentivizing developers to meet the requirements for Measure A.

Incentivize Housing Types in the Next Funding Round

Additionally, it is clear there are more proposed developments in both Category 2 and 3 neighborhoods than potential funding available. In this case, developments will need to meet the goals identified in upcoming Notice of Funding Availability (NOFA) rounds to be the most competitive for funding in these areas. Earlier data that shows more senior housing in Category 1 and more permanent supportive housing (PSH) in category 3. The NOFA will incentivize family housing and PSH housing in Category 1. The NOFA will deduct points for PSH developments in Category 3.

D. Challenges to the Affordable Housing Siting Policy

Applying the affordable housing siting policy to redistribute affordable housing throughout the City in order to create more choice for lower income households may result in unintended consequences. These challenges are acknowledged and will be tracked carefully over time.

Potential Increase to the Cost of Developing Affordable Housing

The Siting policy encourages the distribution of affordable homes in Category 1 neighborhoods. There is a concern that building affordable housing in these areas may increase the cost of affordable housing production. Information provided by an affordable housing developer indicates that the development costs for Category 1 sites is not higher in these neighborhoods. According to the [Affordable Housing Cost of Development study](#) completed by Keyser Marsten in 2019, the average cost per unit for site acquisition is \$76,000. Based on data provided from an

affordable housing developer in 2021, the range of land prices for three sites in Category 1 neighborhoods ranged from \$40,000 to \$68,000 per unit, which falls below the average of \$76,000 found in the cost of development study. It is assumed that other costs of development will be relatively similar across neighborhood categories and that the cost of land will be the most likely to vary. Land cost per unit will be tracked as additional sites are identified in Category 1 neighborhoods.

Fewer Parcels May be Available for Affordable Housing Development

The Siting Policy incentivizes development in Category 1 neighborhoods. There is a concern there may be fewer sites available in these areas, making it difficult to achieve the goal. As a part of the upcoming Housing Element update process, the City will be identifying sites for future affordable housing development. Throughout this process, staff will evaluate the number and availability of land to achieve the Siting Policy goals.

Lack of Investment in Low-Income Neighborhoods

An unintended consequence of the Siting Policy may be that lower-income neighborhoods will experience a further lack of investment. The Policy could restrict transformative developments in areas in need of improvement. To date, low-income neighborhoods have the highest level of investment of affordable housing and therefore provide more choice in these neighborhoods. The Siting Policy is limited to restricting low-income housing development and will not limit moderate-income and market rate development. The policy also allows a small number of affordable housing developments to move forward in Category 3 neighborhoods. Developments that provide additional services to their residents or to the neighborhood will be prioritized to ensure that transformative developments are given the highest funding priority. The impacts of the Siting Policy on lower-income neighborhoods will be tracked over time.

E. Strategies for Implementation of the Affordable Housing Siting Policy

An implementation plan with specific actions will be developed to achieve the goals of the Siting Policy. The section below outlines the recommended workplan items needed to support the policy.

Increasing Affordable Housing in Category 1 Neighborhoods

The City will explore a range of strategies to increase affordable housing production in Category 1 neighborhoods in alignment with the Siting Policy's high-level goals, including but not limited to the following:

- Provide capacity-building, predevelopment and acquisition funding to nonprofit developers seeking to create affordable housing in Category 1 neighborhoods.
- Potentially engage a consultant to identify available sites in Category 1 neighborhoods for future affordable housing development.

- Complete an assessment of potential barriers to achieving the Siting Policy’s high-level goals for Category 1 neighborhoods.
- Use the Housing Element update process and other upcoming planning processes to ensure adequate supply of residential sites in Category 1 neighborhoods that would allow development of affordable housing.

Increasing Resources in Category 3 Neighborhoods

The City will explore a range of strategies to increase resources in Category 3 neighborhoods, including but not limited to the following:

- Explore partnering with affordable housing developments in Category 3 neighborhoods seeking City funding to explore ways to incorporate additional measures to support the wellbeing of its residents and the surrounding community within the affordable housing development.
- The Housing Department will coordinate with other City efforts to focus investments in Category 3 neighborhoods in order to increase opportunity areas while avoiding displacement of low-income residents.

Alignment with Other Policies

The City will coordinate with other policies and work towards their alignment with the Siting Policy, as described below:

- Establish an agreement with Santa Clara County and the Santa Clara County Housing Authority to make funding decisions that align with the City’s high-level Siting Policy goals.
- Coordinate with Anti-Displacement policies as they are developed and implemented.
- Explore potential changes to the City’s bond policy to align the Siting Policy goals.
- Update the Affordable Housing Investment Plan to reflect the priorities for funding by neighborhood categories.
- Update the Notice of Funding Availability (NOFA) to reflect the distribution of funds based on the Siting Policy. Include in the NOFA scoring criteria points awarded for specific target populations in under-represented neighborhood categories as described earlier in the memo.

These recommendations aim to advance the City’s Siting Policy goals to redistribute affordable housing across the City, ultimately leading to providing choice and opportunity for lower income households to have access to more areas of the City.

F. Policy Evaluation

Key performance indicators will be tracked on an annual basis which may lead to adjustments to the funding priorities. Performance indicators will include the following:

1. *High-level goals*: Progress toward high-level Siting Policy goals for each neighborhood category;
2. *Affordable housing populations*: Representation of each affordable housing development type (family, senior, special needs, other) in each neighborhood category, noting where affordable housing populations are over- or under-represented;
3. *Cost and Density*: Tracking development costs and densities in Category 1 neighborhoods relative to costs in other parts of San José;
4. *Race and ethnicity*: Tenancy data to ensure homes across the City are serving residents who reflect San José's racial and ethnic demographics;
5. *Non-City funded developments*: Location of developments that do not require funding from the City, so that the City can adjust its funding priorities in accordance with high-level Siting Policy goals for each neighborhood category; and
6. *Map changes*: Substantial changes to the Siting Policy map resulting from data updates reflecting neighborhood-level changes.

An annual update will be brought to the Community and Economic Development City Council Committee to evaluate the Siting Policy. An evaluation of the Siting Policy's interim phase (Phase One) will be commissioned before Phase Two begins. The purpose of the evaluation is to assess progress and recommend changes in implementation in order to achieve the policy's high-level goals during the second phase.

CONCLUSION

The Siting Policy recommendations reflect the City's goal to develop affordable housing in both high-income and low-income areas, simultaneously increasing access to affordable housing throughout the City, preventing displacement, and promoting affordable housing choice throughout the entire City.

EVALUATION AND FOLLOW-UP

The Housing Department will develop a workplan to ensure that implementation items are completed and will return in 2022 with a progress report on the workplan. The City of San José Housing Department announced the selection results of the \$75 million Notice of Funding Availability (NOFA) released in June of 2021. One new affordable housing development applied and was selected to move forward to City Council for a funding commitment. Following the approval of the Siting Policy, a second round of funding will be released through the NOFA process.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

The Housing Department and consultant team hosted eleven listening sessions with more than 250 residents, advocates, developers, and affordable housing residents across the City between February and May 2021 to solicit input on the Siting Policy. Details of these outreach meeting can be viewed in Table 8. Specific questions raised in the community meetings and associated responses are included in this report and may be found in **Attachment E**.

Table 8: *Summary of Public Outreach Meetings*

Meeting Date and Audience	Attendees
March 4, 2021 – Developers	35
March 3, 2021 – Advocates	20
March 3, 2021 – District 5	10
March 3, 2021 – District 7	14
March 4, 2021 – District 3 – Spartan Keyes Community Members	14
March 4, 2021 – District 3	7
March 10, 2021 – Broad Community	75
April 1, 2021 – Affordable Housing Residents	22
May 3, 2021 – Broad Community	79
May 10, 2021 – Community Meeting	15
August 16, 2021 - Community Meeting	51
August 25, 2021 – Community Meeting	TBD
<u>TOTAL</u>	342

*Some attendees have attended more than one meeting.

Overall, feedback received from developers and stakeholders include the following:

- The Siting Policy should address inequality and promote access to affordable housing.
- It is important to provide affordable housing in both high-income and low-income areas in the City in order to increase access to opportunity areas.
- Prevent displacement as formerly low-income neighborhoods undergo change.
- Provide quality affordable housing in areas where many low-income people already live.
- The Siting Policy could help to address inequalities and promote access for residents of San José.
- It is important to understand the dynamics of those moving from high-poverty neighborhoods when moved into another community – loss of support systems and cultural aspects.
- City Council should consider neighborhoods’ characteristics before and after developments proceed.

- Affordable Housing Developers were concerned about phase-in of the new Policy, as some have already invested in existing sites located in Category 3 neighborhoods.

On May 13, 2021, the Housing Staff presented the draft of the Affordable Housing Siting Policy to the Housing and Community Development Commission and the public. The primary concerns expressed from the members of the community who participated in the commission meeting included:

- The policy combines affordable housing with supportive housing. A differential distinction of the two should be explicit in the siting report.
- The capacity of the current neighborhood should be taken into account when considering supportive housing.
- Siting Policy is supposed to support equitable placement of affordable housing.
- The Siting Policy doesn't have the verbiage to address over concentration of a specific type of housing.
- The concentration of services and facilities for the chronically homeless and the synergy of problem behaviors can overwhelm the carrying capacity of a neighborhood. When that carrying capacity is reached, the economic demographics begin to deteriorate and, ultimately, a struggling community emerges.
- The report only supports on impact on property value, not on quality of life, like school test score, impact on services, food resources, affordable childcare, after school programs, items that impact the quality of life of the residences of the facility and the community etc.
- The community also raised concerns regarding future affordable housing development and the associated development of parking and parks.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

The Siting Policy Update was discussed on May 10, 2021, at the Housing and Community Development Commission (HCDC) meeting held over Zoom. The Commission voted unanimously to support the staff recommendation to receive a status report and provide feedback to City staff on its workplan to create an Affordable Housing Siting Policy for the location of subsidized restricted-affordable housing developments. Below are the motions made by the HCDC regarding the Siting Policy:

- To help facilitate equitable distribution, the Department should distinguish between affordable housing and supportive housing in the Siting Policy and track them separately but consider them in totality. **Motion Passed, 12/0**

- The categories should be subdivided by Census Block Group to identify those Census Block Groups that have a high density of affordable/supportive housing or homeless services, and the policy should be modified to avoid future affordable development in highly impacted Census Block Groups. **Motion Passed**, 10/2
- Shorten the Phase I period from 5 years to 3 years. **Motion Passed**, 12/0
- Move to change percentages to 40% for Category 1 and 40% for Category 2 for Phase 1. **Motion Passed**: 11/0

POLICY ALTERNATIVES

Policy Alternative: Expand Category 3 neighborhoods to include the gang task force hot spots (as defined in the 2019).

Pros: The Siting Policy is designed to improve the outcomes for low-income households throughout the City. Placing long-term affordable housing in areas identified by the City as hot spots for gang activity may present challenges for the low-income individuals and families that move into these new developments. The Gang Prevention Task Force uses data plus public input to inform the locations. There is a concern that vulnerable populations do not report crimes to the Police Department and therefore their experiences are left out of the analysis. The Gang Prevention Task Force includes this on the ground reality check.

Cons: The hot spot areas are revisited every two years and change over time. As intervention efforts are made, hot spots may move and evolve over a number of years. Affordable housing developments are designed and built to serve a community for 55 years or more. The gang hot spots may move in and out of a neighborhood multiple times during the lifetime of an affordable housing development. Additionally, the Siting Policy will be updated periodically, but would be required to be updated every two years to follow updated to the hot spot mapping. This type of change will reduce predictability to affordable housing developers seeking sites throughout the City using multi-year timelines.

Reason for not recommending: Including gang task force hot spots in Category 3 neighborhoods will require frequent updates to the Siting Policy and associated maps, resulting in lost predictability for affordable housing developers seeking sites for new affordable housing development. In addition, this would further limit where affordable housing could be sited and is inconsistent with a data-driven approach.

FISCAL/POLICY ALIGNMENT

Policy actions are consistent with the Envision San José 2040 General Plan and the Housing Crisis Workplan Goals H-1 and H-2 of the to provide housing throughout the City that addresses the needs of all San José residents, and to increase, preserve, and improve San José's affordable housing stock; and the City's Consolidated Plan 2015-2020, adopted by City Council on May 5, 2015, to provide homes for very low- and extremely low-income households.

HONORABLE MAYOR AND CITY COUNCIL

August 20, 2021

Subject: Approve the Affordable Housing Siting Policy

Page 22

CEQA

Not a Project, File No. PP17-008, General Procedure and Policy Making resulting in no changes to the physical environment.

/s/

JACKY MORALES-FERRAND

Director, Housing Department

For questions, please contact Rachel VanderVeen, Deputy Director, at (408) 535-8231

ATTACHMENTS:

- **Attachment A** - Affordable Housing Siting Policy Report
- **Attachment B** - Affordable Housing Siting Policy
- **Attachment C** - Affordable Housing Siting Policy Maps
- **Attachment D** - Affordable Housing Siting Policy Briefing Sheet
- **Attachment E** - Community Questions & Concerns