



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 1, 2023

Approved

Date: 6/1/2023

SUBJECT: AFFORDABLE HOUSING FUNDING AND PIPELINE DEVELOPMENTS

BACKGROUND

With their approval of the Mayor's March Budget Message for Fiscal Year 2023-2024, the City Council directed the Administration to give further context on the affordable housing pipeline within San José and a funding plan for these developments. This Manager's Budget Addendum responds to this direction.

ANALYSIS

The City of San José Housing Department has strived towards equitable investments in affordable housing throughout San José. Since its inception in 1987, the Department has assisted in the development of more than 21,000 housing opportunities through an investment of \$2 billion. The Draft 2023-2031 Housing Element¹ identifies the largest need for new affordable housing in the City's history. The City's Regional Housing Needs Allocation (RHNA), based on a robust methodology of San José's need and capacity, identifies a need of 62,200 homes. Of that total, 23,775 homes are needed to house the city's extremely low-, very-low, and low-income households. The greater Bay Area Region has a total need for 441,176 new homes.

While RHNA is technically a planning goal, this upcoming Housing Element cycle incorporates factors that represent jurisdictions' need for housing affordability based on a data-driven model at the regional level. The model considers the City's capacity to build, but also the local demographics and extent to which residents are overpaying for housing, are overcrowded, and have housing condition problems. To meet the City's goal of 23,775 affordable homes in this

¹ More information regarding the Draft 2023-2031 Housing Element is available for review on the City of San José website at <https://www.sanjoseca.gov/your-government/departments-offices/planning-building-code-enforcement/planning-division/citywide-planning/housing-element/2023-2031-draft-housing-element>

planning cycle, staff conservatively estimates² that it would require \$4.8 billion in City subsidies. The City’s subsidies, if available, would leverage another approximate \$19.0 billion³ in private and public sources loaned to and invested in housing developments.

Housing Development Pipeline

As detailed in **Attachment A**, there are 9,776 affordable homes in the pipeline that staff assumes may begin construction within the next five years. These developments require a myriad of funding sources to be able to be developed, and a local investment is often a crucial part of the funding package. Staff has assumed an average request of approximately \$200,000 per unit (which is average for funding commitments in 2023 and roughly 20% of the total estimated development cost) for developments that may seek funding from the Housing Department in a future Notice of Funding Availability (NOFA) release, and has estimated when these developments may approach the Department. Based on this assumption, a total of \$1.6 billion will be needed to fund the pipeline over the coming five years as shown in **Table 1**. It is important to note that not all these developments may seek funding from the City and the commitments requested by developments may vary. All developments that seek funding are subject to the City’s underwriting guidelines.

Table 1: Affordable Housing Development Pipeline

Pipeline Affordable Housing Development Category	Number of Units	Estimated City Funds Needed
Notice of Funding Availability Waitlist Developments	591	\$50,525,000
City Owned Sites	2,152	\$351,460,000
Sites Identified in the Housing Element	6,438	\$1,287,600,000
Total	9,181*	\$1,689,585,000

*This figure excludes the 2021 NOFA awardees totaling 595 units that are anticipated to receive formal funding commitments in 2023-2024.

Over the next five years, over 2,000 new affordable homes will complete construction. Since 2019, 19 affordable housing developments have received financing from the City and other partners. In order to maintain an ongoing pipeline of affordable housing development, it is critical to continue annual investments ensuring that developers continue to identify sites and begin predevelopment work paving the way for new development in future years.

Permanent Supportive Housing is a Solution to Homelessness

Ending homelessness and housing insecurity continues to be a priority for City, County, and State agencies. To achieve this goal, permanent affordable housing is required to provide access to clean, safe, and decent housing for all at varying income levels. Permanent housing provides

² This estimate assumes the following: the City would need to subsidize all the development of extremely low-, very low-, and low-income units; no affordable homes are created by the private market through Inclusionary Housing requirements; City subsidy is capped at \$200,000 per unit for extremely low-, very low-, and low-income units; and, subsidies for moderate-income units are excluded.

³ Assumes City subsidy comprises 20% of total development costs.

long-term housing to individuals, seniors and families who cannot afford market rate rents. It provides stability and helps vulnerable families and individuals thrive. The City's contribution towards the development of these affordable housing units is necessary to end the ongoing housing and homeless crisis facing the City of San José.

Current Funds Available for Commitment

The Housing Department has six funding sources where the development of affordable housing is an allowable use: Low-and Moderate-Income Housing Asset Fund (LMIHAF), Inclusionary Housing Ordinance Fee Fund (IHO), Commercial Linkage Fee Funds (CLF), the Affordable Housing Investment Fee Fund (AHIF), Measure E Real Property Transfer Tax (Measure E) and federal HOME Investment Partnerships Program (HOME) funds. **Attachment B** outlines staff's current review of these fund sources and their projected revenue over the next five years. Fiscal Year (FY) 2023-2024 Measure E funds are not included in this analysis due to direction in the City Council-approved Mayor's March Budget Message for FY 2023-2024 that directed the Administration to explore the reallocation of uncommitted Measure E funds for homeless prevention, support, and management.

Based on this review, there is a total of \$103.7 million available for new development in the current fiscal year. These funds will primarily be used to support the remaining four affordable housing developments totaling 595 units selected through the 2021 NOFA process, but have not yet received formal commitments from the City Council, for a total of \$93.5 million. After funding these NOFA projects, the remaining balance of City affordable housing funding in 2022-2023 is approximately \$10.2 million. No waitlist developments will be funded with these resources; all waitlist developments must reapply to a future NOFA.

As shown in **Attachment B**, the City's affordable housing funding sources are estimated to generate additional revenues of approximately \$246 million over the next five years. Each of these funding sources are subject to specific requirements related to target population and, specifically in the case of HOME, specific criteria may also apply to the developer and proposed development.

Adjustments in Projected Revenue Due to Economic Conditions

All funding sources have been impacted by the current economic conditions. The Housing Department's main source of funds for the development of affordable housing has historically been the LMIHAF. These funds are generated through the repayment of existing loans in the City's portfolio of over 200 properties. In times of high-interest rates, many developers do not seek to refinance senior bank loans on properties. The refinancing of senior debt occasionally triggers a paydown or payoff of the City loan on the development. These paydowns and payoffs were prevalent during the low interest rates spurred by the COVID-19 pandemic; however, these payoffs have since dwindled as the interest rates have continuously climbed. LMIHAF revenue has dropped by 83% between March 2021 to March 2023 from \$36.6 million to only \$6 million, with \$7 million estimated for future years.

All revenues generated by market rate development or transactions have also declined. Revenues collected through the Measure E transfer tax have sharply decreased. In 2021-2022 revenue

collections totaled \$110 million. The revenue estimate included in the 2022-2023 Adopted Operating Budget assumed collections of \$65 million, as cooling of the real estate market was anticipated. However, current year tracking anticipates that actual revenues will likely be in a lower range between \$50 million and \$60 million. The 2023-2024 Proposed Operating Budget assumes Measure E revenue collections of \$50 million. IHO, AHIF, and CLF funds to the Housing Department are also negatively impacted by the high-interest rate environment as it slows commercial and market-rate development due to the increased cost of development. All three of these revenue sources are generated by either the development of market rate residential or commercial buildings, or the sale of both market rate residential and commercial buildings. As the actual collection of these revenues for the current year are down, future year revenues have been adjusted downward accordingly.

Funding Plan

As shown in **Attachment B**, the Housing Department currently has \$103.7 million of available funding in 2022-2023 to allocate for future affordable housing production. Of this amount, \$93.5 million is required to fund the remaining four developments from the December 2021 NOFA, leaving a remaining balance of approximately \$10.2 million. As discussed above, the current economic conditions have greatly affected revenue sources available to the Housing Department. Revenues are estimated at \$16.4 million for 2023-2024 and \$245.6 million over the next five years. Staff will continue to monitor all sources of funding for development of affordable housing closely. Developments on the 2021 NOFA waitlist and City owned sites will need to await a future NOFA that would be funded from available HOME, LMIHAF, IHO, CLF, AHIF and Measure E revenue as received. The Housing Department has a goal to release a NOFA annually when funds are available. Based on current projections and actions included in the 2023-2024 Proposed Operating Budget to reallocate \$35.6 million of Measure E funds in 2023-2024 for homelessness prevention support and management services, if approved, the next NOFA release will be in FY 2024-2025.

Funding demands of the current projected pipeline significantly outstrip the funds available in the next five years, demonstrating the importance for additional funds at the Federal, State and local level to continue addressing the great need for affordable housing.

COORDINATION

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

/s/

JACKY MORALES FERRAND
Director of Housing

ATTACHMENTS:

Attachment A: Affordable Housing Development Pipeline

Attachment B: Affordable Housing Revenue Projections through Fiscal Year 2027-2028

Attachment A: Affordable Housing Development Pipeline

2021 NOFA Awardees		
Address	Total No. of Units	2023-2024 City Funds
605 Blossom Hill Road	87	\$17,675,000
2080 Almaden Road	162	\$18,750,000
525 N. Capitol Avenue	158	\$27,800,000
1371 Kooser Road	188	\$29,251,066
Subtotal	595	\$93,476,066

2021 NOFA Waitlist		
Address	Total No. of Units	Requested City Funds
2880 Alum Rock Avenue	162	\$8,900,000
1936 Alum Rock Avenue	192	\$12,000,000
2315 Canoas Garden Avenue	237	\$29,625,000
Subtotal	591	\$50,525,000

City-Owned Sites		
Address	Total No. of Units	Estimated City Funds Needed
1749 Mount Pleasant Road	8	\$1,600,000
71 Vista Montana	446	\$55,000,000
3707 Williams Road	68	\$7,260,000
255 N Autumn & 24-260 Montgomery	246	\$45,000,000
258 McEvoy Street	365	\$73,000,000
5585 Cottle Road	456	\$57,000,000
2090 Evans Lane	563	\$112,600,000
Subtotal	2,152	\$351,460,000

Developments in Pipeline with Affordable Units Identified in Housing Element		
Address	Total No. of Units	Estimated City Funds Needed
1347 E Julian Street	45	\$9,000,000
995 E Santa Clara Street	72	\$14,400,000
501 S. Almaden Avenue	86	\$17,200,000
1135 E. Santa Clara Street	91	\$18,200,000
2920/2928 Alum Rock	103	\$20,600,000
934-948 East Santa Clara Street	103	\$20,600,000

Attachment A: Affordable Housing Development Pipeline

1655 Berryessa Road	120	\$24,000,000
802 S 1 st Street	246	\$49,200,000
81 N 2 nd Street	8	\$1,600,000
1747 Almaden Road	9	\$1,800,000
486 West San Carlos	9	\$1,800,000
1325 E Julian Street	14	\$2,800,000
95 N 11 th Street	14	\$2,800,000
144 N 5 th Street	18	\$3,600,000
70 N 27 th Street	20	\$4,000,000
543 Lorraine Avenue	40	\$8,000,000
17 E Santa Clara Street	42	\$8,400,000
4360 Stevens Creek Boulevard	88	\$17,600,000
4300 Stevens Creek Boulevard	116	\$23,200,000
2188 The Alameda	118	\$23,600,000
2350 South Bascom Avenue	130	\$26,000,000
270 Sunol St/777 West San Carlos	154	\$30,800,000
0 Seely Avenue	172	\$34,400,000
961 Meridian Avenue	231	\$46,200,000
1298 Tripp Avenue	233	\$46,600,000
699 W. San Carlos	361	\$72,200,000
565 Lorraine Avenue	30	\$6,000,000
5885 Santa Teresa Boulevard	49	\$9,800,000
70 Kentucky Place	55	\$11,000,000
1936 Alum Rock Avenue	194	\$38,800,000
1565 Mabury Road	195	\$39,000,000
605 S 2 nd Street	243	\$48,600,000
950 W Julian Street	297	\$59,400,000
100 N. 4 th Street	298	\$59,600,000
675 E. Santa Clara Street	554	\$110,800,000
740 W San Carlos Street	73	\$14,600,000
118-124 N 15 th Street	102	\$20,400,000
19 N 2 nd Street	220	\$44,000,000
1319 Tripp Avenue	235	\$47,000,000
450 W. San Carlos	1,250	\$250,000,000
Subtotal	6,438	\$1,287,600,000

Total Development Pipeline	9,776	\$1,689,585,000
-----------------------------------	--------------	------------------------

ATTACHMENT B – Affordable Housing Revenue Projections through Fiscal Year 2027-2028

	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
Source of Funding	Estimated Year End Balances	Estimated Revenue	Estimated Revenue	Estimated Revenue	Estimated Revenue	Estimated Revenue
Low and Moderate Income Housing Asset Funds (346)	\$12,693,187	\$7,000,000	\$7,000,000	\$7,350,000	\$7,717,500	\$8,103,375
Home Investment Partnership Program Trust Fund (HOME, 445)	\$12,895,000	\$3,400,000	\$3,700,000	\$3,700,000	\$3,700,000	\$3,700,000
Inclusionary Fee Funds (451)	\$41,741,442	\$3,000,000	\$4,250,000	\$4,500,000	\$4,750,000	\$5,000,000
Commercial Linkage Fee (448)	\$15,545	\$3,000,000	\$4,440,000	\$4,440,000	\$9,900,000	\$4,440,000
Affordable Housing Impact Fee (452)	\$818,254	\$0	\$0	\$0	\$0	\$0
Measure E (001)	\$35,500,000	\$0**	\$35,625,000	\$35,625,000	\$35,625,000	\$35,625,000
TOTALS	\$103,663,428*	\$16,400,000	\$55,015,000	\$55,615,000	\$61,692,500	\$56,868,375
Total for FY 23/24 through FY 27/28						\$245,590,875

*The year end balances will be used to fund the remaining four affordable housing developments selected through the 2021 NOFA process, for a total of \$93,476,066.

**In accordance with the direction in the Mayor's March Budget Message for Fiscal Year 2023-2024, as approved by the City Council, the 2023-2024 Proposed Operating Budget reallocates \$35,625,000 of anticipated 2023-2024 Measure E revenues from affordable housing production to homeless prevention, support, and management services.