NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

NEWS TO BUILD ON FALL 2014

HONOR THE PAST, LOOK TO THE FUTURE – A LEGACY OF LEADERSHIP

As NPH celebrated our 35th anniversary this year, we chose the theme Honor the Past; Look to the Future to guide our work – and how appropriate it turned out to be. With the announcement that longtime Executive Director Dianne Spaulding will be transitioning away from the organization after 23 years, 2014 turned out to be an even bigger year than expected. As the Board of Directors and staff have worked through the transition process, we have spent a lot of time reflecting on the affordable housing milestones NPH has been a part over the past decades, as well as envisioning and strategizing the future of NPH and of affordable housing.

And so, as this year comes to a close, it seemed only appropriate to sit down with both Dianne and Phil Kilbridge, CEO of Habitat for Humanity Greater San Francisco and outgoing NPH Board President, to discuss their take on this climactic time.

How has NPH changed since you came onboard?

Dianne: NPH changed along with the whole affordable housing sector. It's our 35th anniversary, but we don't have many members over 35 years old. The first 10 years of the movement was a homegrown volunteer group of committed, smart people that were just beginning to create these organizations. The whole nonprofit affordable housing model was just beginning, getting tested.

The role of NPH has changed. When I came on in 1993, most intermediaries didn't exist. People turned to us for the technical assistance. But as these intermediaries were created, our technical assistance wasn't needed as much as our capacity building, our policy development, our advocacy, all of the roles that we play now in a profound leadership way shifted over time.

When I first came on we were very focused on federal policy. We had very few members. We weren't very good at collecting dues. I think I was able to get everyone organized, putting infrastructure in place, putting systems in place, creating a real sense of community, a sense that it was a movement.

Phil: I joined the Board in January 2009. At that point NPH was deciding how to engage in national issues given the slowdown in the economy and the Great Recession. We thought we had an opportunity at the Federal level with the Obama administration and Carol Galante at HUD. Unfortunately, our friends in Washington had to play defense during the economic crisis. We've now pivoted back to, not just to the state, but to an almost hyper-local level.

What do you hope for the future of NPH?

Phil: I hope and believe that we'll carry on the dynamic legacy established by Dianne. So I hope for, not necessarily a seamless, but an energizing transition.

Dianne: Somebody, back in 1986, thought of the LIHTC, somebody came up with state housing bonds as funding strategy. We need a bold new idea. I hope that NPH will the organization that can lead us into the future.

What do you see as the biggest challenges for NPH?

Dianne: Well without money….

Phil: In a slowly recovering California economy, how do we reemerge with critical state funding that's largely absent? All redevelopment money is gone and bond money has dried up. The state needs to be at the table to enable affordable homes for our most vulnerable as well as our workforce. The way it looks now within a year they will be almost completely out of the conversation. We need to help our elected officials understand their critical role is at the state level. Fortunately, we have some champions now in Sacramento.

Dianne: In a truly Californian metaphor, the affordable housing community is in an eight year drought when it comes to funding. We have to get some rain. NPH has to be the rainmaker. That requires tenacity, intellect, thought-leadership, and some real political chops.

(continued on the next page)

HONOR THE PAST, LOOK TO THE FUTURE – A LEGACY OF LEADERSHIP (CONT)

Biggest opportunities?

Dianne: Back to basics is the opportunity. Let's reenergize and recreate the movement. That's where the Emerging Leaders Peer Network comes in. As the baby-boomers and the silver tsunami move out and the emerging leaders come in, they need to be energized and they need to figure out what makes sense for them to push this agenda and influence policy. No doubt that they'll figure it out.

Phil: There's also the key opportunity to continue to work on transit-oriented development and greenhouse gas reduction. 2014 provided a great Cap & Trade win—over the next several years we'll see how it plays out. With that, there's the continued opportunity of measuring outcomes for our residents and homeowners. When we can prove that emergency room visits are decreased, and education outcomes are attained and VMT (vehicle miles traveled) reduced – when we can show that data – that will be huge for us!

We have an opportunity to energize our base, for lack of a better term. We have to continue to evolve our affordable housing residents and homeowners to be active in the political process to champion for others what others have championed for them.

What are you most proud of during your tenure at NPH?

Dianne: I truly am proud of what our developers do: Build it! I'm most proud of working with the members to build an organization with authentic member involvement, fearless advocacy, cutting edge policy development. Together we've built a dynamic organization that is sustainable and has real staying power for the affordable housing sector.

Phil: Oddly enough, I'm very proud of our reemergence from the depths of 2009-2010 to where we are today. I'm proud of the resiliency of NPH staff and members. When we were most challenged (with elimination of RDA) was when so many people showed up. I was chairing the NPH Legislative Issues Committee at the time, and every meeting had every seat in the room taken and 40 people on the phone from across the state. NPH was the right convener to share the right information.

What will you miss most about NPH?

Phil: There are two things really. The staff. They are such a hardworking, impressive group of dedicated individuals. I will miss interacting with them on a regular basis. I will also miss the incredible intellect and level of discussion of the Board of Directors. It's truly impressive what a smart group of individuals sit in those meetings.

Dianne: The people, without a doubt. My co-workers and my colleagues, many of whom have become my friends. What a gift that is! You not only get to work on one of the most critical public policy issues of our time – affordable housing – but also work with people that you enjoy and respect.

NPH CAMPAIGN PUSHES FOR LOCAL AGENCY SURPLUS LAND FOR AFFORDABLE HOUSING

One of the bright spots of the just-concluded state legislative session was having Governor Jerry Brown sign into law NPH's AB 2135 (Ting). The legislation, which was one of the most substantive affordable housing policy bills passed this year, strengthens the Right of First Refusal enjoyed by affordable housing when local agencies – including special districts such as transportation authorities – dispose of surplus land. We are very grateful to our bill author, Assemblymember Phil Ting (D-San Francisco), for his commitment to addressing the affordable housing crisis and carrying the bill. We now forcefully pivot to conduct a full-court press with our "2135 Campaign" to make sure the law is implemented at the local level as the bill's provisions take effect on January 1st.

It is important to note that AB 2135 also contains an inclusionary housing requirement for land sold or leased for market-rate residential development outside of the preference system. However, this requirement does not run afoul of the Palmer decision because the inclusionary component is a condition of sale or lease of the surplus land and not a condition of project approval.

In AB 2135, the Legislature reaffirmed its declaration that affordable housing is an issue of statewide importance, that lower-income households are more likely to use transit and that "the sale or lease of land at less than fair market value to facilitate the creation of affordable housing near transit is consistent with goals and objectives to achieve optimal transportation use."

Prior to passage of AB 2135 the language in the statute was contradictory as to whether surplus land could be sold by a local agency for below fair market value. Without redevelopment agencies, it is particularly important that agencies be allowed to write down the cost of land as a way to provide additional subsidy that can allow affordable homes to be more deeply income-targeted. In addition, AB 2135 clarifies that the sale or lease of surplus land by local agencies, including transportation authorities, shall not be construed as inconsistent with the agency's purpose.

Other provisions of the bill extend the period for good-faith negotiations between the local agency and an affordable developer from 60 to 90 days; allow the payment period for properties sold or leased to extend beyond twenty years but not to exceed the term of affordability; grant priority to the project that proposes the greatest number of affordable units at the deepest level of affordability; and require that properties sold outside the preference system for residential development include at least 15% of the units at an affordable cost to low-income households.

NPH is teaming up with affordable housing, transit, environmental and social justice advocates across the Bay Area to utilize the provisions in this new law to ensure that local agencies follow the state statute when selling or leasing surplus land for development and adopt policies that, at a minimum, meet these requirements set out in the Government Code. This is particularly important given the fact that enforcement of this law and the disposition process will be essentially complaint-driven. Great vigilance will be required and nonprofit affordable housing development organizations should send letters to local jurisdictions, agencies, authorities and special districts formally requesting to be notified when surplus land becomes available for disposition.

In the context of the current housing element updates being undertaken by jurisdictions across the Bay Area, NPH has been pushing for the dedication of publicly-owned surplus land for affordable housing as a key program to be adopted by cities and counties and, as one example, in response San Jose Mayor Chuck Reed publicly agreed that the City should work with the Santa Clara Valley Transportation Authority (VTA) to identify and secure key sites for affordable housing.

In addition, VTA just recently announced that it has over 50 properties that it plans to make available for real estate development. It is imperative that homes affordable to lower-wage workers in the Silicon Valley be included. We cannot allow the development of all of this surplus land to further exacerbate the current disastrous jobs-housing fit in the region and be used for luxury apartments, high-end condos and commercial and industrial uses without ensuring that a large portion of these parcels be dedicated for the creation of homes affordable to lower-income workers and residents. These are the low-wage households that yield the greatest transit ridership and comprise two-thirds of the job growth in the Silicon Valley. For more information on AB 2135 (Ting) and the 2135 Campaign please contact Michael Lane at michael@nonprofithousing.org.

REGIONAL HOUSING UPDATE: LOCAL HOUSING IMPACT FEES HELP ADDRESS BAY AREA AFFORDABLE HOUSING CRISIS

The need for more affordable housing in the Bay Area is indisputable. Research recently conducted by the California Housing Partnership Corporation (CHPC) shows that the existing affordable rental housing stock in the nine-county Bay Area can only accommodate 41 percent of the total number of very-low income (VLI) households in the region. As a result of the severe shortage of affordable rental homes, 57 percent of the region's VLI households are severely rent burdened which means more than half of these households' income is spent on monthly rent, leaving little else for other critical needs. Findings from CHPC analysis of 2007-2012 data show that the market would need to create an additional 250,000 affordable homes to accommodate the existing number of VLI households alone. Unfortunately, housing production across the region has been very uneven.

Housing production data collected by the Non-Profit Housing Association of Northern California (NPH), the East Bay Housing Organizations (EBHO), and Bay Area Legal Aid for the period of 2007 to 2014 shows that the market has failed to provide for the affordable housing need, especially for moderate income households and households that earn less than 80 percent of the area median income (AMI).

The Association of Bay Area Governments (ABAG) estimated that for the period of 2007 to 2014 the region would grow by more than 214,000 new households. For that same period, only 88,101 new homes were created, representing 41 percent of the projected housing demand across all income levels. A closer look at the data shows that while the market created homes to satisfy 68 percent of the total above-moderate household need, it only provided 21 percent of the total need for very-low, low-, and moderate-income households.

TABLE 1: PROGRESS TOWARDS RHNA 4 HOUSING GOALS

	RHNA 4 Progress (units)					RHNA 4 Progress (percent)			
COUNTIES	VL	L	Mod	Amod	TOTAL	VL	L	Mod	Amod
Alameda County	2715	1674	814	10999	16,202	27.1%	22.0%	9.0%	60.3%
Contra Costa County	1208	763	2486	6542	10,999	18.6%	17.6%	49.8%	58.2%
Marin County	238	129	179	540	1,086	21.8%	17.1%	18.3%	26.3%
Napa County	74	33	250	750	1,107	8.4%	5.7%	35.1%	48.7%
San Francisco	3,771	1,031	1,075	10,572	16,449	57.2%	18.6%	15.9%	85.8%
San Mateo County	467	516	507	3,055	4,545	13.0%	20.0%	16.7%	46.8%
Santa Clara County	2926	2228	1900	25191	32,245	21.1%	23.3%	17.3%	97.3%
Solano County	112	82	44	1520	1,758	3.7%	4.1%	1.9%	26.9%
Sonoma County	457	670	748	1835	3,710	14.1%	31.1%	30.6%	31.6%
ENTIRE BAY AREA	11,968	7,126	8,003	61,004	88,101	24.5%	20.3%	19.4%	68.4%

The depth of the affordable housing need will continue to grow for the foreseeable future.

Economic studies show that new residential and non-residential (e.g. retail, office, or industrial) developments create the need for additional affordable housing.

New market-rate residential development provides homes for households with disposable incomes. These new households, in turn, create a demand for additional affordable homes to house low-wage service sector workers that provide for their needs. For example, the residential nexus study completed by Keyser Marston Associates, Inc. (KMA) for the City of Emeryville in March 2014 shows that almost 82 percent of the new worker households created would need affordable housing.

The same is true for new non-residential development or job-generating development. Each new retail, industrial, or commercial development creates new jobs, many of which pay very low- or low-income wages. A recent non-residential nexus study completed for the City of Sunnyvale showed that an exceptionally large share (96 percent) of new households created through new retail development would be VLI and low-income (LI) households.

REGIONAL HOUSING UPDATE (CONT)

Jurisdictions will need to develop a suite of tools to arrest the growing affordable housing crisis. Among the most promising tools available to local jurisdictions are impact fees. Historically, cities and counties have required that new developments mitigate the additional attributable demand for services and infrastructure through payment of an impact fee. Traditionally, impact fees have been levied to mitigate traffic, sewer, or recreational impacts stemming from new development.

However, the growing recognition of the links between affordable housing and new residential and job-generating development has led to growing interest in the use of housing impact and commercial linkage fees.

A housing impact fee is a fee levied on new residential development built for sale or for rent. A commercial linkage fee is a fee levied on new job-generating uses such as retail, commercial, or industrial developments. Both fees are based on a nexus study which analyzes and quantifies the number of new households created as a result of new development. A nexus study also establishes the maximum fee that could be levied against new development.

To better understand how the region is poised to accommodate anticipated housing growth in the coming decades, NPH conducted research on the use of housing impact fees and commercial linkage fees for sixteen cities that are expected to accommodate up to 68 percent of the total growth within the region. (Table 2)

Of the sixteen growth cities only the cities of Fremont, Santa Rosa and Livermore currently levy housing impact fees. It is important to note that other cities in the region have adopted housing impact fees, the two most recent being Daly City (between $14 to $25 per square foot for rental and for-sale units dependent on product type) and Emeryville ($20,000 per unit). In addition, there are a number of efforts underway related to new housing impact fees. The City of San Jose is in the process of developing a housing impact fee program, while all twenty cities within San Mateo County are participating in a county-wide nexus study that may set the stage for cities in that county to adopt such fees. Of the sixteen growth cities, only San Francisco, Oakland, Sunnyvale, Livermore, and Mountain View currently levy commercial linkage fees on new job-generating developments.

Given the significant affordable housing need and the lack of resources to finance affordable housing production for households earning 80 percent area median income or less, jurisdictions around the region should include housing impact and commercial linkage fees in their policy platforms. These fees will enable jurisdictions to be eligible for Cap and Trade funding for affordable housing, Low-Income Housing Tax Credits (LIHTC), and other public funding sources that require the leverage of a local match in order to be competitive. It is this type of subsidy that will enable cities to increase their production of homes affordable to low- and very low-income workers and households. The following best practices should be considered when developing proposed impact fees:

Levy fees across all developments. Nexus studies establish a clear rationale and impetus for requiring that all new residential and job-generating uses mitigate attributable additional demand created for affordable housing. The requirement to mitigate the impact created should be levied across all new residential or job-generating uses regardless of size, construction type, combination of uses, or project location.

Adopt a fee that is meaningful but doesn't deter development. Nexus studies quantify the maximum feasible fee a jurisdiction can levy. However, jurisdictions often do not adopt a housing impact or commercial linkage fee at the maximum level. When considering a feasible fee level, jurisdictions should strive to achieve a balance between setting a meaningful fee that will actually result in affordable housing production without deterring new development. Nexus studies are often accompanied by feasibility studies that quantify the necessary market adjustments to absorb an impact fee. In the case of the City of San Jose, a fee of $17 per square foot would necessitate a 1.5 percent increase in market rate rents, well below the 11.3 percent increase in rents experienced by Santa Clara County within a year.

REGIONAL HOUSING UPDATE (CONT)

Adjust fees annually to account for increased construction costs. The City of Sunnyvale's existing commercial linkage fee, currently in the process of being revised, contains provisions for an annual increase. Jurisdictions considering impact fees should include similar provisions to ensure that the fees generated keep pace with increased costs associated with housing production.

Exempt projects in the current development pipeline. Market rate and not-for-profit housing developments are contingent on clear, well-established development standards, requirements and processes. When implementing a new impact fee, jurisdictions often provide a grace period of 12 to 18 months before a fee takes effect and explicitly exempt projects already within the entitlement phase. Doing so ensures that projects underway are not derailed.

The Association of Bay Area Governments (ABAG) estimated that for the period of 2007 to 2014 the region would grow by more than 214,000 new households. For that same period, only 88,101 new homes were created, representing 41 percent of the projected housing demand across all income levels. A closer look at the data shows that while the market created homes to satisfy 68 percent of the total above-moderate household need, it only provided 21 percent of the total need for very-low, low-, and moderate-income households.

Rank	Name	New Households	Housing Impact Fee	Commercial Linkage Fee
1	San Jose	35,080	In progress.	None.
2	San Francisco	28,869	None.	The City levies between $16.01 to $24.03 per square foot (in excess of 25,000 square feet) on R&D, integrated PDR, Office, and Entertainment and Retail uses.
3	Oakland	14,765	In progress.	The City levies $4.00 per square foot on hotel and office uses.
4	Sunnyvale	5,452	None.	Revision to existing fee in progress. The City currently levies $9.49 per square foot on high-intensity industrial development and districts zoned M-S and M-3.
5	Concord	3,478	None.	None.
6	Fremont	5,455	For-sale and Rental Units $19.50 - $22.50 per square foot	None.
7	Santa Rosa	4,662	For-sale Units: 2.5 percent sale price Rental Units: Up to $12,712 per unit	None.
8	Santa Clara	4,093	None.	None.
9	Milpitas	3,290	None.	None.
10	Hayward	3,920	None.	None.
11	Fairfield	3,100	None.	None.
12	San Mateo	3,100	None.	TBD
13	Livermore	2,729	For-sale and Rental Units Between 10 and 15 percent of affordability gap up to $15,610 per unit.	Between $206 to $1,039 per unit on industrial uses, manufacturing, warehouse and storage, and business and commercial.
14	Richmond	2,435	None.	None.
15	Mountain View	2,926	$10.00 per square foot	Between $2.50 to $15.00 per square foot (in excess of 25,000 square foot) for office, high tech, and industrial and commercial, retail, entertainment, and hotel uses. Smaller developments pay 50 percent of linkage fee.
16	Redwood City	2,789	None.	None.