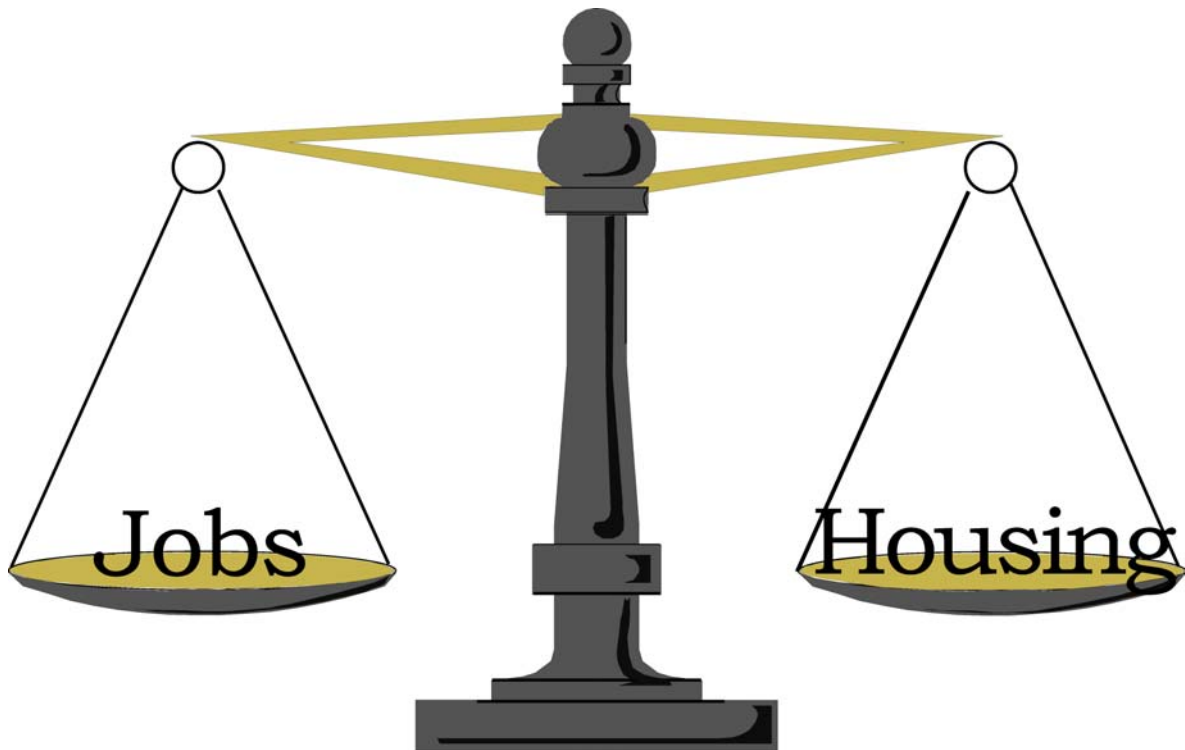


**East Bay**  
**Jobs/Housing Report:**  
***Bringing Housing Into Balance***

**by the**  
**Economic Development Alliance for Business**  
**(EDAB)**



November 2001



## *Preface*

The Economic Development Alliance for Business (EDAB) fully supports the outstanding work of its Jobs/Housing Task Force in framing for East Bay business, government and community leaders a strategy and set of initial actions to address the extreme shortage of affordable housing in this region. EDAB recognizes that the recommended actions represent a consensus position of the Task Force members. To some, the report might not have gone far enough and, to others, it has gone too far. Everyone, however, is in agreement as to the severity of the problem and the adverse consequences to our region's quality of life and economic vitality if we fail to address these issues.

The report, while not a comprehensive plan, represents a starting point for careful evaluation and consideration by cities as part of their ongoing efforts to address local housing needs. At the same time, the report represents a call to action for the region to increase public and private investment in affordable housing. While there may be differences in how each community embraces individual recommendations outlined in the report, EDAB hopes that business, community and local government leaders will continue to work together to examine and advance solutions that will increase housing in the region.

EDAB wants to thank the many cities, community groups and individuals that have commented on the Task Force report. This report has stimulated additional dialogue on important issues such as of the need for community education, the effective use of incentives and/or disincentives to stimulate production of affordable housing and the relationship between local, regional and state responsibility for balancing housing and job growth. It exposed the tension local leader's experience in addressing their housing needs in the face of community opposition and limited resources. Clearly, the issues are extremely complex and the solutions will depend on our success as a region in working together and balancing competing interests.

It's important for all to remember that the goal we all want to achieve is for more affordable housing to be built in the East Bay. The purpose of this document is to stimulate a broad debate towards achieving that goal and not necessarily mandate forced solutions. Some of the ideas mentioned in our report include inclusionary housing, residential bonds, density bonuses, etc. These are ideas meant to stimulate the housing debate, not to have the unintended consequence of actually reducing housing stock. Today we recognize that it is primarily the market forces projecting supply and demand that will ultimately determine if we accomplish the goal of more affordable housing being built.

Towards this end, EDAB is committed to working with its public, private and community non-profit members to advance the solutions outlined by the Task Force. EDAB will continue to be a resource to its member cities as they evaluate the feasibility of local actions within their jurisdiction in light of changing market and investment patterns. We will support efforts to improve community education on the importance of affordable housing; facilitate collective regional actions to increase local and state investments in housing in the East Bay; share best practices and lessons learned; and work to strengthen collaboration and leadership through our membership and its regional network. EDAB will also, one year from now, provide a report on the East Bay's collective efforts to increase appropriate housing stock.



Keith Carson  
Chairman  
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## East Bay Jobs/Housing Report November 2001

By any measure, the availability of housing has become a crisis throughout Alameda and Contra Costa Counties. Home ownership is out of reach for families of the median income. Vacancy rates among rental housing are as low as 2% in parts of the region. The 2000 Census data shows increases in the number of households in neighborhoods where there have been no appreciable increases in housing units. As workers employed in Alameda and Contra Costa Counties are forced by the costs of housing to move east to the Central Valley communities of Tracy, Manteca, and Stockton, commutes lengthen, traffic congestion increases, and air quality deteriorates. Creative solutions are needed to work toward resolving the multi-faceted issue of housing affordability. In response to this, EDAB established a Jobs/Housing Task Force to address these issues. The Task Force included representatives from the public, private and non-profit sectors.

In order to explore a full range of options and develop a comprehensive set of recommendations to present to the Economic Development Alliance for Business (EDAB), the Jobs/Housing Task Force divided into three Work Groups: Resources and Finances; Housing and Policy; and Education and Communications. Each group met and developed a list of recommendations. A committee of the chairs of the three Work Groups and the co-chairs of the Task Force then incorporated these recommendations to begin coordinating a strategy for both counties.

Affordable housing has financial costs but also brings environmental and public benefits. Affordable housing located close to sources of employment reduces traffic congestion and improves air quality. Recognizing this, the Task Force sought to develop recommendations that emphasize affordability as a responsibility of all communities. As a guide to the discussions, the Task Force agreed on an overall vision for the East Bay: *to create housing affordable to workers near their employment.* As specific recommendations were discussed and prioritized, they were compared to this vision. The recommendations presented will all contribute to making this vision a reality.

The Association of Bay Area Governments (ABAG) has projected that 46,793 units of new housing will be needed in Alameda County by 2006. An additional 34,710 units of new housing will be needed in Contra Costa County during the same time period. The projected needs are broken down as follows:

**ABAG 1999-2006 Housing Needs**

County	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Total Need
Alameda County	9,910	5,138	12,476	19,269	46,793
Contra Costa County	6,683	3,782	8,596	15,649	34,710
<b>Total</b>	<b>16,593</b>	<b>8,920</b>	<b>21,072</b>	<b>34,918</b>	<b>81,503</b>

The Task Force noted that, although these numbers seem high, they represent only an incremental increase to the area's existing housing stock. Per the 2000 census, there are 536,495 total housing units in Alameda County. According to ABAG, the required additional number of very low and low housing units for Alameda County is 15,048 which is 2.8% of this total. Achieving the goal of meeting these needs would not fundamentally change the characteristic of each community in Alameda and Contra Costa County.

In Alameda and Contra Costa Counties, the definitions of these income levels are surprisingly high. They are based on the annual Area Median Income (AMI), and adjusted for family size. The levels for 2001 are shown in the following table:

Persons in Household	Very Low Income (50% of AMI)	Low Income (80% of AMI)	Average Median Income	Moderate Income (120% of AMI)
1	\$25,050	\$37,700	\$50,100	\$60,150
2	\$28,650	\$43,050	\$57,300	\$68,700
4	\$35,800	\$53,850	\$71,600	\$85,900

Working families throughout the region easily meet the definitions of low and very low income. For example, service workers such as food service workers, retail clerks, and hotel employees earn between \$14,000 and \$16,000 per year. A secretary earns \$37,000 and an account clerk earns \$38,000 per year. Starting teachers salaries are under \$40,000. Affordable housing, as defined by the federal government, is when a family pays no more than 30 percent of its total income for rent and utilities or for mortgage payment, insurance, taxes and utilities.

For the purposes of developing the recommendations, it was assumed the above moderate income units will all be developed by the private sector. Although some assistance may be needed to produce units affordable to moderate income households, it was assumed that the greatest barriers are in required subsidies, land availability, and community acceptance for the development of very-low and low-income housing. Thus, the recommendations in this report are focused on the affordability needs of low and very low income households.

In addition to the guiding vision of creating housing affordable to workers and near their place of employment, the Task Force agreed that all housing solutions implemented, and the housing built as a result of these actions, need to be distributed throughout the communities and throughout the two counties. No community should be exempt from, or over burdened by, the requirement to provide affordable housing.

Also, the housing growth projected for the region reflected in the ABAG numbers will result in increased numbers of children enrolled in local schools. Although affordable housing does not impact school enrollment levels any differently than other housing construction, it may assist schools indirectly. Recent efforts have focused attention on the fact that teachers in many school districts qualify for affordable housing and first-time homebuyer assistance programs. In fact, they may require such assistance in order to live in the community in which they work. Available, affordable housing will benefit school districts in the recruiting and retention of qualified teachers. Teachers are just one example of the many people who need affordable housing in order to balance the fabric of our society.

Students also benefit from the availability of affordable housing. Children of families who are homeless or inadequately housed often perform poorly in school. Their schoolwork improves significantly when the family is housed in decent and safe affordable housing.

Many of the issues identified in the discussions among the Work Groups were identified as being areas within local control, or changes that can currently be made by local governmental entities in Alameda and Contra Costa Counties. Other changes require action by the State of California. The Task Force divided the recommendations into Local and State to reflect those actions that can be accomplished by local governments and those where EDAB’s role is to advocate for changes on a larger scale.

The housing crisis is such a complex issue, there is no one solution. To address the need in a significant way will require implementation of multiple recommendations. These recommendations, as a package, form a beginning strategy and are a catalyst for action in the region.

Local	State
<ul style="list-style-type: none"> <li>• Bond Measure</li> <li>• Package of Local Incentives</li> <li>• Package of Barriers to Affordable Housing to be Eliminated</li> <li>• Housing Action Coalition</li> <li>• Commercial Linkage Fee</li> <li>• Inclusionary Zoning</li> <li>• Increase the Housing Setaside Funds in Redevelopment Areas</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusionary Zoning</li> <li>• “De-fiscalization” of Land Use</li> <li>• Statewide Mandate to Increase the Housing Setaside Funds in Redevelopment Areas</li> <li>• Housing Element Law</li> </ul>

**LOCAL**

Bond Measure

The Task Force recommends EDAB advocate for Countywide Affordable Housing Bond Measures in both Alameda and Contra Costa Counties. While a bond measure alone cannot solve all affordable housing problems in the counties, the Bonds would raise revenue dedicated to the development of new affordable housing units and provide essential leverage to maximize all other available subsidies. Community support for these Housing Bond Measures is critical to their passage; this is truly an issue where EDAB can have a significant impact on the housing crisis. Specific actions for EDAB to take include:

- assist in the formation of a Housing Bond Measure Steering Committee in each county - the Committee could consist of two members of the Board of Supervisors, representatives of the county conferences of mayors, and business leaders and would be responsible for conducting a poll to analyze support for the measure, feasibility, fund raising, and campaigning for passage;
- advocate for passage of the Bond Measures by speaking to business and industry;
- encourage support for the Measure by elected leaders throughout both counties; and
- investigate other capital and equity tools at the State level for the region.

Package of Local Incentives

A number of incentives, targeted both to 100% affordable developments and market rate developments which include a minimum of 10-20% dedicated affordable units in projects, were identified. These incentives can be enacted by the local jurisdictions in both Alameda and Contra Costa Counties. Recommended incentives are:

- streamlined permit process;
- reduced, deferred or waived permit fees;
- reduction of parking requirement for transit based and affordable housing developments;
- density bonuses;
- property tax reductions; and
- modifications to the building codes, including allowing five stories of Type V (wood frame) construction over one story of Type I (concrete) construction.

#### Package of Barriers to Affordable Housing to be Eliminated

In addition to providing incentives, it is also important that existing barriers to the development of affordable housing are removed. Issues identified are:

- ensure there is adequate land zoned at appropriate densities to meet the housing projection needs;
- address overly restrictive growth control measures; and
- revise zoning requirements to allow mixed-uses (residential over commercial).

#### Housing Action Coalition

The Task Force recognized a need for broader education of the public, elected officials, and the media on housing issues. To meet this need, the Task Force recommends the formation of Housing Action Coalitions in Alameda and Contra Costa Counties to educate and advocate. The Coalitions need to be broad based to be effective. In addition to coordinating a public education effort, the Coalitions would also be available to provide support for individual affordable housing projects as they are proposed and acted upon by political leaders throughout the Counties.

#### Commercial Linkage Fee

Commercial Linkage Fees are assessments on the construction of new commercial, office, and industrial development that are placed in a fund for the development of dedicated affordable housing. Some jurisdictions in Alameda County, such as the Cities of Alameda and Berkeley, have such a fee now. Others do not. The Task Force recommends EDAB advocate for a countywide nexus study in both Alameda and Contra Costa Counties to determine the appropriate levels for this type of fee, and the assessment of the fee on a consistent basis to reduce inter-jurisdiction competition for commercial development. The City of Oakland is conducting a nexus study at this time.

#### Inclusionary Zoning

Inclusionary Zoning requires that either a percentage of units in all new housing developments are set aside as affordable, land is dedicated for the development of affordable housing, or the developer of the housing pay a fee which goes into a fund for the development of affordable housing. Several jurisdictions in the region now have inclusionary ordinances, and others do not.

The Task Force recommends EDAB advocate for inclusionary zoning in all jurisdictions in Alameda and Contra Costa Counties.

The Task Force also discussed (but did not agree upon) another type of inclusionary program, called the Comprehensive Affordable Building Spaces Program. This program would make mandatory the inclusion of affordable housing units in all developments over a certain size, including commercial developments. In return, developers will receive incentives that will offset their financial shortfalls (e.g. density bonuses, partial parking, and property tax waivers). However, the majority of the Task Force preferred inclusionary zoning for residential developments only.

#### Increase the Housing Setaside Funds in Redevelopment Areas

Currently, State redevelopment law requires that all redevelopment agencies set aside a minimum of 20% of the gross tax increment revenue received to be used exclusively for affordable housing projects. Local jurisdictions (redevelopment agencies) may, however, increase that percentage. The Task Force recommends that EDAB advocate for all redevelopment agencies in Alameda and Contra Costa Counties to increase the setaside percentage to at least 25%, and to ensure a portion of these funds be expended to provide housing for very low- and low-income households. The City of Oakland Redevelopment Agency has recently adopted a policy increasing setaside funding to 25% of tax increment revenue.

#### **STATE**

A number of recommendations were categorized as “State” because they involved working with the State of California representatives to affect changes in State law and policy. These are recognized as having a much longer time frame for accomplishment.

#### Inclusionary Zoning

In addition to recommending the adoption of inclusionary zoning ordinances on the local level, the Task Force recommends EDAB lobby Alameda and Contra Costa County representatives at the State level to introduce legislation to require inclusionary zoning in all jurisdictions statewide.

#### “De-fiscalization” of Land Use

Current State laws regarding tax revenues to local governments, including sales tax and property tax codes, encourage cities and counties to seek development of commercial uses over residential. Commercial uses such as retail, “big box” retail, and hotels generate direct revenue to the local jurisdiction in excess of the costs of services to the developments. Affordable and moderately priced housing is actually a net revenue loss to the local jurisdiction since the cost of services required generally exceeds the tax revenue received. This type of policy perpetuates the current jobs/housing imbalance. The Task Force recommends EDAB endorse efforts to correct this imbalance at the State level.

#### Increase the Housing Setaside Funds in Redevelopment Areas

As stated above, State redevelopment law requires that all redevelopment agencies set aside a minimum of 20% of the gross tax increment revenue received to be used exclusively for affordable housing projects. The Task Force recommends EDAB lobby Alameda and Contra

Costa County State representatives to increase the setaside percentage from 20% to 25% statewide. This will result in a significant increase in funding available for affordable housing projects statewide. In addition, the Task Force noted that some jurisdictions do not expend their housing funds in a timely manner. The Task Force recommends EDAB lobby the State of California to strengthen the “use it or lose it” provisions of the California Redevelopment Law.

#### Housing Element Law

Currently, State law requires all cities and counties to have a State certified housing element to the General Plan, but there are very limited incentives for jurisdictions to have, and to implement, the Housing Element. There are also no provisions for sanctions for those jurisdictions that do not actually implement their approved housing element. The Task Force recommends EDAB lobby Alameda and Contra Costa County State representatives to strengthen the Housing Element law by providing incentives to those jurisdictions that adopt and implement their elements. Incentives could include additional State funds such as for road and infrastructure improvements or for use at the discretion of the recipient jurisdiction.

#### **End Notes**

<sup>1</sup> An analysis was done as part of the Task Force’s work by students at the Department of Demography, UC Berkeley, entitled “Alleviating the Jobs-Housing Mismatch: Cost-Based Housing Needs Planning.” This analysis used the City of Dublin as a case study. The Task Force noted the need to continue this analysis and research for the broader East Bay in order to develop an accurate economic model.

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<sup>2</sup> The Task Force noted the need for a complete survey of all cities and counties in the Bay Area regarding housing programs. The Survey would identify housing programs and funding sources throughout the Bay Area, as well as identifying areas with large unused resources.

## **Addendum: Affordable Housing Financing Resources**

Development costs in the San Francisco Bay Area are extremely high and affordable housing projects are no exception. As a result, affordable housing developments combine a variety of funding sources in a complex “patchwork quilt” of financing mechanisms. Following is a list and brief description of many of the sources commonly used to finance affordable housing.

It is important to note that some affordable housing projects can support some level of debt service or mortgage payments, but all affordable housing projects depend on some level of funding without debt payments in order to achieve and maintain affordability. In many instances, the subsidy financing is secured as a deferred or forgivable loan against the property, so no payments are required. The deeper the level of affordability of the units, or the lower the incomes of the targeted residents, the greater the level of subsidy required to make the project financially viable.

Most affordable housing projects require some level of local funding to match or leverage federal or state funding resources. Without these local resources, the other sources would not be available. These local sources are also often the "subsidy" component of the project, ensuring the level of affordability.

### **Federal Sources**

Many sources of affordable housing originate from the United States Department of Housing and Urban Development (HUD). These funds are channeled through either local governments (cities and counties) or directly to non-profit corporations and housing development corporations.

HOME Funds: These federal funds are “block granted” to local jurisdictions and can be used to finance affordable housing development. Local jurisdictions can use these funds in a variety of ways to subsidize projects. Used as subsidy funds, these funds do not require debt service.

Community Development Block Grant (CDBG) funds: These funds are “block granted” to local jurisdictions and can be used for some types of expenses associated with the development of affordable housing. Like HOME funds, these funds can be subsidy funds without debt service.

Section 8: Local Housing Authorities, which administer the Section 8 Program, may “project base” some of these funds at designated developments by contract. Section 8 provides an ongoing rental subsidy, guaranteeing a certain level of rent although tenants pay much less as their share. This, in turn, can be used to secure active debt service loans to develop the property initially. Section 8 itself is not a source of direct development capital. Recently, federal regulations were changed to also allow the use of Section 8 subsidies for home ownership.

Section 202 and 811 Programs: These programs provide very low interest mortgages directly from HUD to the housing developer for the construction of affordable housing for the elderly and the disabled. Securing these funds is a competitive application.

Low Income Housing Tax Credits: This is a federal program authorized by Congress, but the states administer the actual allocation process. In California, the allocation of tax credits is the responsibility of the California Debt Limit Allocation Committee (CDLAC) and is a highly

competitive process. The credits are awarded directly to the developer of the selected project. The credits, which provide a dollar for dollar credit on federal income taxes, are generally awarded to a non-profit and then sold to one of several for-profit corporations who can utilize the credits. This generates equity capital for the project. The highly complex process requires extensive work, and a relatively large project to make it financially feasible.

**Mortgage Revenue Bonds:** Like Tax Credits, Mortgage Revenue Bonds are a federal program authorized by Congress, but the states administer the actual allocation process. In California, the allocation of bonds is also the responsibility of the California Debt Limit Allocation Committee (CDLAC) and is a highly competitive process. These bonds are tax exempt, so the interest rate payable by the borrower is significantly less than the rate on a traditional mortgage. However, bonds require actual debt service so the project must be able to service the level of debt borrowed. For-profit developers who commit to set aside a percentage of units in a project as affordable while the remaining units are market rate may use this mechanism.

**Affordable Housing Program (AHP):** The Federal Home Loan Bank has established a fund for affordable housing which is awarded twice a year in competitive rounds to non-profit developers of affordable housing. Although generally not a major source of project funding, AHP is structured as a forgivable loan.

**Other Federal Sources:** Other Federal programs may be used to assist in the development of affordable housing projects. HUD makes grants available for the abatement of lead based paint in housing, which can be a part of the overall financing for rehabilitation projects. HUD also has a loan guarantee program, called Section 108, which can be used to guarantee a Section 8 rent subsidy income stream or a loan for commercial space. The Environmental Protection Agency (EPA) provides grants for the clean up of brownfields in urban areas, which can be used for eventual development into affordable housing.

### **State Sources**

The State of California administers several State financed programs in addition to the federally funded programs it administers.

**California Housing Finance Agency (CHFA):** This State agency makes financing available to a number of types of projects in the form of below market interest loans. A project must be able to support the debt service. Recently, CHFA has introduced a new program, Housing Enabled by Local Partnerships (HELP), which provides low interest loans (3%) directly to local jurisdictions for use in housing development projects and programs. CHFA also has a new Loans to Lenders program for affordable housing permanent loans.

**State Department of Housing and Community Development:** State HCD offers several programs to local jurisdictions and non-profit housing developers. The Mobile Home Park Acquisition Program provides funding specifically for the acquisition and preservation of mobile home parks occupied by a majority of low-income tenants. The Multi-family Housing Program (MHP) is a complex loan program which provides very low interest loans to affordable housing projects. It was introduced in 2000 and has been highly competitive on a state level. HCD also has a new program, called Downtown Rebound, which makes grants available for projects in blighted areas.

The State of California has established the Inter-Regional Partnership Program (IRP), which includes five counties in the Bay Area (Alameda, Contra Costa, San Joaquin, Santa Clara and Stanislaus). The IRP will open a Request for Proposal (RFP) in the fall of 2001 for the designation of Jobs-Housing Opportunity Zones. In the areas that are selected through the RFP process, the State will make certain incentives available for both affordable housing and job-related development.

### **Local Funding Sources**

Local jurisdictions in California also have a variety of funding sources for affordable housing.

**Redevelopment Housing Set-aside Funds:** California Redevelopment Law requires all redevelopment agencies and project areas set aside no less than 20% of the area's gross tax increment funding for use for affordable housing projects. These funds are limited to actual acquisition and construction expenses, and must be used within a reasonable time frame. State law requires that "excess surplus" funds built up in a jurisdiction revert to the area Housing Authority for the development of affordable housing. Local Redevelopment Agencies have a great deal of flexibility as to the structure of the subsidy resulting from these funds; they can be silent or deferred loans or loans which require repayments.

**Locally generated housing funds:** Many jurisdictions have established local housing funds, which are funded through local fees or taxes. These programs vary from jurisdiction to jurisdiction as they are established by the local authority to address local needs.

### **Private Funding Sources**

As a part of the requirements of their federal charter, financial institutions have to meet Community Reinvestment Act requirements. Although this can be done in several different ways, loans for affordable housing projects can be part of the financial institution's program. A number of commercial financial institutions offer a variety of mortgage programs for affordable housing including loans for construction phase financing and permanent mortgages for affordable housing projects. Examples include: lenders and construction loans that are intended to be replaced by below market, permanent loans such as CHFA or the State MHP. These are, however, generally structured as active debt service loans, and not subsidies.



## **Jobs/Housing Task Force Members**

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