

FINAL

Affordable Housing Strategy

Prepared for:

**The Town of Los Gatos and
Los Gatos Redevelopment Agency**

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I. Introduction

The Town of Los Gatos retained Seifel Consulting Inc. (Seifel) to assist Town staff in developing an Affordable Housing Strategy (Strategy) with the following objectives:

- Spend accumulated funds in the Redevelopment Housing Set-Aside Fund (\$7.2 million) and the Below Market Price (BMP) Program In-Lieu Fee Fund (\$1.4 million).
- Produce as many affordable housing units as possible per dollar invested.
- Attain the Town's Housing Element goals and help meet the Town's housing needs, including its Regional Housing Needs Allocation.
- Meet the Los Gatos Redevelopment Agency's (Agency) Redevelopment Plan housing goals and obligations.

Seifel has worked with Town staff to assess the Town's housing needs and obligations, the Town's existing housing programs, affordable housing inventory, and financial resources. In June 2008, Seifel toured Downtown Los Gatos and various neighborhoods, as well as the Central Los Gatos Redevelopment Project Area, with Town staff to identify potential opportunity sites for acquisition/rehabilitation and other types of affordable housing projects. In November of 2008, Seifel received and reviewed Housing Element data needed for the Housing Needs Assessment section of this Strategy.¹ To supplement Housing Element data, Seifel also gathered and analyzed additional data needed for completing the assessment. In February of 2009, Seifel submitted drafts of the Strategy to Town staff and the General Plan Committee for review and incorporated their feedback. Our work has culminated in the preparation of this final draft of the Strategy. This report is organized as follows:

- I. Introduction
- II. Overview of the Town's Housing Needs, Goals and Obligations
- III. Existing Housing Programs
- IV. Current and Projected Funds Available for Affordable Housing
- V. Affordable Housing Strategy
- VI. Conclusions and Next Steps

¹ Town of Los Gatos Draft Housing Element Update (2009), Ch. 1-4.

II. Overview of the Town's Housing Needs, Goals and Obligations

This section examines the key objectives that the Affordable Housing Strategy should fulfill. It begins with a summary of the Town's housing needs and presents the goals articulated in the Town's Housing Element. It then describes the Redevelopment Plan's goals and obligations, as well as its progress to date in meeting the obligations.

A. Housing Needs Assessment

A clear understanding of the housing needs of the Town is essential to the formulation of an Affordable Housing Strategy. Data from the 2009 Draft Housing Element Update formed the foundation of Seifel's assessment of the Town's housing needs.

1. Population and Housing Units

According to the 2009 Draft Housing Element Update, the estimated population of the Town of Los Gatos is 28,813 and its residents are housed in approximately 12,952 housing units.² Over the past three decades, the Town's population and housing supply have grown at a slow pace, and is projected to continue at a similar pace. According to the Association of Bay Area Governments (ABAG), the Town's population is anticipated to grow by 7 % to 30,900 people between 2005 and 2025.

2. Housing Construction Types and Tenure

Approximately 70 percent of the total housing units in Los Gatos are single family units, including single family attached units. An additional 29 percent of housing units are multifamily apartments or buildings with two or more units. Mobile homes account for the remaining one percent of housing units in the Town.³

Owner-occupied units form the majority of the housing tenure types in Los Gatos. The 2000 U.S. Census reported that 65 percent of housing units in the Town are owner-occupied and 35 percent are renter-occupied.⁴

3. Housing Affordability Gap

A barometer to measure housing needs in a community is the housing affordability gap, which is the difference between what households can afford to pay for housing-related expenses and actual housing costs. This section compares household incomes to typical costs for rental and for sale housing in Los Gatos to determine if the community's housing needs are being met by the local rental and for sale housing market.

² Both the Town's population and housing unit estimates are as of 2008.

³ Town of Los Gatos Draft Housing Element Update (2009).

⁴ Ibid.

a. Household Income

Many local jurisdictions, including Los Gatos, use the countywide household income limits set by the U.S. Department of Housing and Urban Development (HUD), as a standard for defining income categories within a community. Table 1 summarizes the maximum income levels for each income category and household size for Santa Clara County. The typical or “median” household income for a four-person household in Santa Clara County is \$97,800.⁵ This figure is generally referred to as the Area Median Income (AMI) because it represents the midpoint of household incomes within the county, with half of the households countywide earning incomes above this level and half below. Area Median Income is also referred to as 100 percent AMI, and HUD defines all other income levels in relation to a percentage of AMI, as presented in Table 1.

**Table 1
Household Income by Household Size
Santa Clara County**

Income Category	Household Size							
	1	2	3	4	5	6	7	8
Extremely Low (30% AMI)	\$22,300	\$25,500	\$28,650	\$31,850	\$34,400	\$36,950	\$39,500	\$42,050
Very Low (50% AMI)	\$37,150	\$42,450	\$47,750	\$53,050	\$57,300	\$61,550	\$65,800	\$70,050
Low Income (80% AMI)	\$59,400	\$67,900	\$76,400	\$84,900	\$91,650	\$98,450	\$105,250	\$112,050
Moderate (120% AMI)	\$82,200	\$93,900	\$105,700	\$117,400	\$126,800	\$136,200	\$145,600	\$155,000

Source: U.S. Department of Housing and Urban Development, issued by State of California Department of HCD February 28, 2008.

According to the 2009 Draft Housing Element Update, extremely low, very low and low income households comprise approximately 20 percent of all households in the Town, as shown in Table 2 below.

**Table 2
Households by Income Category in 2000
Town of Los Gatos**

Income Category	Total Households ^a	Percent of Total Households
Extremely Low	900	7.5%
Very Low	677	5.7%
Low	772	6.5%
Moderate and Above	9,611	80.4%
Total	11,960	100.0%

a. U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS) 2000 data.

Source: Town of Los Gatos Draft Housing Element Update (2009), Design, Community & Environment (DC&E), Seifel Consulting Inc.

⁵ State of California HCD, “Official State Income Limits for 2008” (February 28, 2008).

b. Housing Costs and the Affordability Gap

According to Federal and State housing standards, in order for housing to be affordable, a household is expected to spend no more than 30 to 35 percent of its gross monthly income on housing related expenses, also known as the allowed monthly housing cost. Such expenses may include utilities and rent for renters, or utilities, mortgage, property tax, insurance and homeowners assessment fee for homeowners. Implicit in the allowed monthly housing cost is the rental or mortgage payment a household can afford.

Overall, housing costs are high in Los Gatos. The cost of renting an apartment or purchasing a home in the Town is not affordable to a four-person household of extremely low, very low and low income. As shown in Table 3, the average market rate rent of \$2,600 per month for a three-bedroom unit is only affordable to households of moderate income and above. The Town's median home sales price of \$838,000 in November 2008 is unaffordable to households of low and moderate income.

**Table 3
Comparison of Household Income and Housing Costs in 2008
Town of Los Gatos**

Income Category	Maximum Income (Four-Person Household)^a	Maximum Monthly Income	Affordable Rent/ Allowed Monthly Housing Cost^b	Affordable Sales Price^c
Extremely Low	\$31,850	\$2,654	\$796	\$66,000
Very Low	\$53,050	\$4,421	\$1,326	\$146,000
Low	\$84,900	\$7,075	\$2,123	\$266,000
Moderate	\$117,400	\$9,783	\$3,424	\$462,000
Market Rate ^d			\$2,600	\$838,000

- a. Maximum income as defined by HUD for Santa Clara County.
- b. Calculated as 35% of monthly income for moderate income and 30% for all other income levels, as defined by California Redevelopment Law.
- c. Estimate rounded and based on monthly income with 10 percent down payment and 30-year amortized loan with an allowance for utilities, taxes, HOA dues, and insurance.
- d. Average market rent for three bedroom units as of January 2009 (<http://www.craigslist.org>, <http://www.apartmentratings.com/rate/CA-Los-Gatos.html#market>). Median sales price for new construction and resales of single family homes and condos (DataQuick Real Estate News, November 2008).

Source: Town of Los Gatos, Seifel Consulting, DataQuick Real Estate News

c. Recent Housing Market Conditions

In the past year, the Town has experienced an 18.2 percent decrease in housing sales prices from \$1.02 million in November 2007 to \$838,000 in November 2008.⁶ According to Town staff, Los Gatos has had relatively few home foreclosures during the recent mortgage crisis and downturn in the real estate market. While housing sales prices are decreasing in Los Gatos, the cost of owning a home in Los Gatos is, and will likely continue to be, unaffordable for most of the community's low and moderate income households.

4. Regional Housing Needs Allocation

The Regional Housing Needs Allocation (RHNA) is a measure of the future housing needs of the Town of Los Gatos. The California Department of Housing and Community Development (HCD) determines overall housing needs for the Bay Area, and the Association of Bay Area Governments (ABAG) then assigns the Town its share of regional housing needs or RHNA. As summarized in Table 4, Los Gatos must plan for 376 new units of housing affordable to very low, low and moderate income households, and 171 new units of housing affordable to above moderate households by 2014. Since January 1, 2007, the beginning of the current RHNA tracking period, only 15 housing units affordable to above moderate income households have been built in the Town.

**Table 4
Adjusted Regional Housing Needs Allocation (RHNA), 2007-2014
Town of Los Gatos**

Income Category	New Housing Units Needed	Units Built, Under Construction and/or Approved^a	Adjusted RHNA
Very Low (0-50%)	154	0	154
Low (51-80%)	100	0	100
Moderate (81-120%)	122	0	122
Subtotal	376	0	376
Above Moderate	186	15	171
Total	562	15	547

a. Since January 1, 2007.

Source: ABAG Final Regional Housing Needs Allocation (adopted May 2008), Design, Community & Environment (DC&E), Seifel Consulting Inc.

⁶ DataQuick Real Estate News, <http://www.dqnews.com>, November 2008.

5. Special Housing Needs Groups

Households with special needs represent a significant percentage of households in Los Gatos. Groups with special housing needs in Los Gatos include seniors, large family, single-parent and overcrowded households, persons with disabilities, and the homeless.⁷ Twenty two percent of the Town's households have one or more seniors, many of whom are likely to be aging in place.

A significant proportion of households with special needs, such as households with disabilities, are on fixed incomes, and thus could be considered extremely low income households. These groups are least likely to have their housing needs met by the private market. Table 5 summarizes the number of households and individuals in each group.

Table 5
Special Housing Needs Groups^a
Town of Los Gatos

	Total Households	Percent of Total Households
Seniors^b	2,631	22.0%
Large Family	760	6.4%
Single-Parent	611	5.1%
Overcrowded	312	2.6%
Subtotal of Special Needs Households	4,314	36.1%
Total Households in Los Gatos	11,960	100.0%
	Total Individuals	Percent of Total Population
Persons with Disabilities	1,776	6.2%
Homeless	30	0.1%
Subtotal of Special Needs Individuals	1,806	6.3%
Total Population in Los Gatos	28,813	100.0%

a. Estimates for households and individuals in each category are not mutually exclusive.

b. Households with one or more seniors.

Source: 2009 Draft Housing Element Update, Seifel Consulting Inc.

⁷ The U.S. Census defines an overcrowded household as one that is occupied by more than one person per room, excluding bathrooms and kitchens. The U.S. Census defines a large family household as a household with five or more persons.

B. Housing Element and Redevelopment Plan Goals

To stay in compliance with State Housing Element Law and the California Community Redevelopment Law (CRL), the Town and its Redevelopment Agency must meet the goals of the Housing Element and Redevelopment Plan. State Housing Element Law requires that local jurisdictions outline the housing needs in the community, the barriers or constraints to providing that housing, and actions proposed to address these concerns over a five-year period. In regards to housing, the CRL outlines certain affordable housing requirements for redevelopment project areas and redevelopment agencies, as described in more detail below. For the purposes of this Strategy, certain requirements apply only to the CRL and others apply only to Housing Element law. Where applicable, distinctions between the two laws are made.

The Town will continue to support and advance the Town's General Plan, and more specifically, the goals and strategies identified in the 2002-2006 Housing Element through the Affordable Housing Strategy, including⁸:

- Improve the choice of housing opportunities for senior citizens, families and singles and for all income groups through a variety of housing types and sizes, including a mixture of ownership and rental housing.
- Preserve existing moderately priced and historically significant housing.
- Eliminate racial discrimination, lack of disabled accessibility and all other forms of discrimination that prevent free choice in housing.
- Make infrastructure projects and residential and nonresidential developments be compatible with environmental quality and energy conservation.
- Reduce the homeless population.
- Provide housing affordable to people who work in the Town.

The Town and its Redevelopment Agency will continue to support and advance the primary affordable housing goal of the Redevelopment Plan, as follows:

- The expansion and improvement of the community's supply of low and moderate income housing.⁹

The Central Los Gatos Redevelopment Project Area's FY 2004/05–FY 2008/09 Implementation Plan states that the Agency will meet this goal through the following primary affordable housing objectives:¹⁰

- Initiate affordable housing projects within the Central Los Gatos Redevelopment Project Area.
- Provide zero interest loans for secondary dwelling units in the Central Los Gatos Redevelopment Project Area.

⁸ Town of Los Gatos Housing Element (2002-2006). The 2009 Housing Element Update at the time of this report.

⁹ Redevelopment Plan for the Central Los Gatos Redevelopment Project, adopted November 25, 1991.

¹⁰ Los Gatos Redevelopment Agency, FY 2004/05 to FY 2008/09 Implementation Plan, October 2004.

In addition to the Housing Element and Redevelopment Plan goals summarized above, a goal of the Affordable Housing Strategy is to create, whenever possible, mixed income housing developments recognizing that the availability of funding opportunities may dictate the affordability mix and income levels of potential developments.

C. Redevelopment Affordable Housing Obligations

The CRL requires that a redevelopment agency comply with and fulfill its affordable housing responsibilities, including:

- **Housing Production:** Minimum percentages of new or substantially rehabilitated housing units in a project area are to be made available at an affordable housing cost.¹¹
- **Housing Set-Aside Fund Expenditure (Housing Fund):** Redevelopment agencies are required to deposit tax increment into the Housing Fund and expend tax increment revenue for the provision of affordable housing. Expenditures must be made according to specific target percentages for assisting various income levels and non age-restricted housing.

1. Housing Production

The Agency is expected to surpass its affordable housing production obligation for the Central Los Gatos Redevelopment Plan as required by CRL for the 2004 through 2014 production compliance period.¹²

2. Housing Set-Aside Fund Expenditure

The Agency currently has an excess surplus of Housing Fund monies of between \$500,000 and \$2 million.¹³ Timely expenditures are imperative to reduce the Agency's excess surplus and avoid penalties.

Under the CRL, Housing Fund moneys must be targeted to specific income levels according to need and to non age-restricted housing. The targeting obligations must be met over the expenditure compliance period beginning January 1, 2002 and ending in December 31, 2014.

¹¹ When new dwelling units are developed in a project area by public or private entities other than the Agency (with or without Agency assistance), or when housing is substantially rehabilitated in a project area by public or private entities with Agency assistance, at least 15 percent of these units must be affordable to, and occupied by, very low, low or moderate income households. Of those units, at least 40 percent must be affordable to very low income households. Affordable housing units that are produced (with or without Agency assistance) within the project area count towards meeting the Agency's production obligations on a one-for-one basis. For each unit produced outside of the project area (with or without Agency assistance), the Agency receives half a credit towards meeting the Agency's obligations. For "mutual self-help housing," like the housing built by Habitat for Humanity, one-third credit is given to the Agency for each unit produced within the project area.¹¹ One-sixth credit is given for self-help units produced outside of the project area.

¹² Los Gatos Redevelopment Agency, 2004 Implementation Plan Midterm Review, February 2008.

¹³ If an agency fails to expend the excess surplus within three years from the time the amount became an excess surplus, the agency is prohibited from expending moneys derived from any source (including non-housing funds) until it has encumbered or expended for qualified affordable housing activities the excess surplus amount plus an additional amount equal to 50 percent of the excess surplus amount. The additional amount must be from non-housing funds sources.

Housing Fund moneys must be used to assist housing for persons of very low and low income in at least the same proportion to the total number of housing units needed for each of these income groups in the community. Table 6 shows the regional fair share allocation and the targeting objective currently applicable to the Town. The Agency is required to spend Housing Fund moneys in the following proportions: at least 41 percent for units affordable to very low income households, at least 27 percent for units affordable to low income households, and no more than 32 percent on housing affordable to moderate income households.

Table 6
Housing Set-Aside Fund Expenditure Targeting
By Income Level
Town of Los Gatos

Income Group and Relation to County Median Income	Total Housing Units Needed	Expenditure Percentage Need by Income Level
Very Low (0-50%)	154	At least 41%
Low Income (51-80%)	100	At least 27%
Moderate (81-120%)	122	No more than 32%
Total	376	100%

Source: ABAG Final Regional Housing Needs Allocation (May 2008), Seifel Consulting Inc.

In addition, a defined minimum percentage of Housing Fund moneys must be spent on housing available to all persons regardless of age. This minimum is equal to the percentage of Los Gatos' low income households with a member under age 65, as reported in the most recent U.S. Census. The 2000 Census indicates that 58 percent of the Town's low income households have a householder under 65 years of age, as shown in Table 7. Thus, the Agency must expend at minimum 58 percent of its funds on housing that does not impose age restrictions on residents.

Table 7
Housing Set-Aside Fund Expenditure Targeting
Non Age-Restricted Housing
Town of Los Gatos

Age Targeting^a	Low Income Households^b	Expenditure Percentage
Non Age-Restricted Housing	2,216	58%
Age-Restricted Housing	1,580	42%
Total	3,796	100%

a. Based on Census data showing low income households by householder age. (The Census does not report low income household information according to the age of household members.)

b. Includes households earning 80% or less of AMI based on limits published by HCD in 2000.

Source: 2000 U.S. Census, HCD Income Limits 2000.

III. Existing Housing Programs

A variety of programs are currently available to assist the Town of Los Gatos in meeting its affordable housing needs, goals and obligations. This section reviews the Town's existing housing programs, the Town's participation in the Housing Trust of Santa Clara County and the current inventory of affordable housing in Los Gatos.

1. Town Housing Programs

The following are programs administered by the Town or in conjunction with affiliates and partners such as the Los Gatos Redevelopment Agency and the Santa Clara County Office of Affordable Housing.

a. Below Market Price (BMP) Program and In-Lieu Fees

The Town's BMP Program requires that a certain percentage of units in new residential developments containing five or more units be designated for low and moderate income occupancy.¹⁴ Affordable units developed under the BMP Program are subject to deed restrictions that are designed to ensure that the units will remain affordable in perpetuity. Projects between five to ten units may contribute an in-lieu fee instead of constructing actual units. These fees are deposited into the Town's BMP In-Lieu Fee and are used as a source of funding for affordable housing developments. To date, 128 units have been produced through this program.¹⁵

b. Density Bonus Program

The Town's Density Bonus Program provides a density bonus of up to 100 percent of the units permitted under zoning regulations for housing restricted to seniors, disabled persons, as well as very low and low income households.

c. Assisting Affordable Housing Developments

Over the years, the Town and its Redevelopment Agency have facilitated the development of a number of affordable housing developments such as the Los Gatos Creek Village Apartments, Blossom Hill and more recently, projects with Senior Housing Solutions. Approximately 200 units of affordable housing have been created in the Town to date as a result of local support.¹⁶

¹⁴ New residential developments affected by the BMP Program includes every multifamily rental dwelling project at the building permit application stage, every residential condominium or planned development subdivision at the time of subdivision, and every community apartment project and every residential stock cooperative apartment or unit project at the time of subdivision if the transaction involves subdivision, or at the time of sale, if it does not.

¹⁵ Town of Los Gatos

¹⁶ Ibid.

d. Housing Conservation Program

The Town's Housing Conservation Program, administered by the Santa Clara County Office of Affordable Housing, was designed to assist in the rehabilitation of housing units occupied by lower income and special needs households. The Town provides both loans and grants to assist in financing repairs to correct health or building code violations, handicap accessibility modifications, earthquake safety or alleviate overcrowded situations. Since the program began in 1976, the Town has provided over 370 loans and grants through this program.¹⁷ The Housing Conservation Program currently has approximately \$500,000 available through its revolving fund.¹⁸

2. Housing Trust of Santa Clara County

The Town of Los Gatos contributes funds to the Housing Trust of Santa Clara County, a non-profit organization, which in turn uses the funds for affordable housing. Los Gatos has contributed \$100,000 per year to the Housing Trust from FY 2005/06 through FY 2007/08, and previously contributed \$250,000 in 2001.¹⁹ The Housing Trust uses these funds for two programs, the Affordable Multi-Family Rental Program, which provides loans to developers of affordable multi-family projects, and the First-Time Homebuyer Program, which assists low income households in securing below market rate financing to purchase homes.

In 2003, the Housing Trust provided a \$60,000 loan to fund a five-unit senior housing project in Los Gatos using the Town's funds. In 2008, the Housing Trust committed to assist in the development of another five units of senior affordable housing within the Town by providing a \$450,000 loan for Anne Way, a project by Senior Housing Solutions.

3. Affordable Housing Inventory

The Town and its Redevelopment Agency have facilitated the creation of numerous affordable housing units, primarily through the BMP Program and by assisting specific affordable housing developments. Table 8 summarizes the affordable housing inventory currently available in the Town and the income levels that are served by the units. This inventory only includes those units that have received local subsidies, among other funding sources. The Town of Los Gatos currently has over 300 subsidized housing units.

¹⁷ Ibid.

¹⁸ Town of Los Gatos Draft Housing Element Update (2009).

¹⁹ Los Gatos Redevelopment Agency, 2004 Implementation Plan Midterm Review, February 2008.

Table 8
2008 Affordable Housing Inventory
Town of Los Gatos

	Very Low Income	Low Income	Moderate Income	Total
Rental				
Affordable Housing Developments	193	8	0	201
<u>BMP Program</u>	<u>0</u>	<u>23</u>	<u>1</u>	<u>24</u>
Subtotal	193	101	1	295
Ownership				
Affordable Housing Developments	1	0	0	1
<u>BMP Program</u>	<u>0</u>	<u>15</u>	<u>25</u>	<u>40</u>
Subtotal	1	15	25	41
Total	194	116	26	336

Source: Town of Los Gatos, Seifel Consulting Inc.

IV. Current and Projected Funds Available for Affordable Housing

An accurate understanding of the Town's funding resources is essential to determine the means by which the Town can address its affordable housing needs, goals and obligations. To achieve this, Seifel reviewed the funds currently available and funds projected to be available through FY 2013/14 to the Town and its Redevelopment Agency for housing programs.

The Town has two primary funding resources for programs to meet Los Gatos' affordable housing needs: the Redevelopment Housing Set-Aside Fund (Housing Fund) and Below Market Price (BMP) In-Lieu Fee Fund.

As shown in Table 9, as of the end of FY 2007/08, the Town had approximately \$8.6 million in funding available for housing-related programs and activities. By FY 2013/14, the Town is projected to have approximately \$17.6 million available for housing-related programs and activities. Seifel conservatively estimated that approximately \$1.5 million would accumulate annually between FY 2008/09 and FY 2013/14 in the Housing Fund and zero dollars for the BMP In-Lieu Fee Fund.

Table 9
Funds Available for Affordable Housing
Town of Los Gatos

Funding Source	Funds Available as of FY 2007/08	Projected Funds Available FY 2008/09 - FY 2013/14	Total Projected Funds Available	%
Housing Fund	\$ 7,199,000	\$ 9,000,000	\$ 16,199,000	92%
BMP In-Lieu Fee Fund	\$ 1,381,000	\$ -	\$ 1,381,000	8%
Total Funds	\$ 8,580,000	\$ 9,000,000	\$ 17,580,000	100%

Source: Town of Los Gatos, Seifel Consulting Inc.

The funding sources in Table 9 are the most reliable source of local funding, as the amount of Federal and State funding sources for affordable housing vary widely from year to year, and the Town must compete to receive many of these funds. As the Town has done in the past, it will continue to use its local funds to leverage Federal and State housing resources, including:

- CDBG and HOME
- State of California, Department of Housing and Community Development
- California Housing Finance Agency
- Federal and State Low Income Housing Tax Credits
- Federal Home Loan Bank
- Mortgage Credit Certificates

V. Affordable Housing Strategy

As described above, the Town has a variety of existing housing programs to further its goals to meet the community's housing needs and expand the Town's supply of affordable housing. Seifel recommends that many of the existing programs be continued and new programs be initiated. The criteria shown in the tracking and evaluation tool in Table 1 of Appendix A were used to formulate the recommended enhancements to existing housing programs and to propose new housing programs and initiatives. The section below presents the proposed housing programs, including both existing and new initiatives.

A. Enhancements to Existing Housing Programs

Seifel recommends that the Town's existing programs continue with potential enhancements to each, as follows:

1. Housing Trust of Santa Clara County

As described in Section III, the Redevelopment Agency has been contributing money from the Housing Fund to the Housing Trust of Santa Clara County under an agreement between the Agency and the Housing Trust that the funds be expended for the production of affordable housing in Los Gatos. The Agency provided \$250,000 in 2001 and \$100,000 annually for three years between 2005 and 2007. The 2001 funds were not fully utilized within the timeframe agreed upon, and the agreement was amended in 2007 to allow an additional two years for the remaining funds to be expended.²⁰

Moving forward, Seifel recommends that the Town continue to monitor the funds granted to the Housing Trust to ensure that they are expended in a timely and efficient manner to produce as many affordable units as possible. In addition, the Agency must ensure that the funds are spent within the boundaries of Los Gatos to comply with CRL requirements.

2. First Time Homebuyer Program

The Town partners with the Housing Trust of Santa Clara County to administer a First Time Homebuyer Program (FTHB) for Los Gatos. According to Town staff, there have been few participants in this program in the past due to the difficulty of purchasing a first home in Los Gatos for low income households. Between 2001 and 2008, the Housing Trust provided five FTHB loans.²¹ Seifel recommends that the Town review and revise its policies for assisting first time homebuyers, and ensure that the Housing Trust administer the program to meet the Town's goals. The Town may consider targeting moderate and middle income households through the First Time Homebuyer Program using BMP In-Lieu Fee funds to create more home ownership opportunities for the Town's workforce. In addition, the Town may focus on utilizing First Time Homebuyer Program funds for multifamily condo projects.

²⁰ Town Council of Los Gatos, Town Council Agenda Report, May 16, 2007.

²¹ Based on data provided by the Housing Trust of Santa Clara County.

3. Housing Conservation Program

The Town partners with the Santa Clara County Office of Affordable Housing to administer the Housing Conservation Program. Between 2002 and 2007, eleven rehab loans were provided through this program. The Housing Conservation Program currently has a revolving fund that allows the fund to be replenished as rehabilitation loans are repaid. In order to satisfy the goals of the Central Los Gatos Redevelopment Plan, Seifel recommends that the Town focus the program to rehabilitate blighted properties within the Redevelopment Project Area and consider prioritizing the use of funds for projects that qualify as “substantial rehabilitation” as defined by the CRL in order to gain more housing production credits.²²

4. Below Market Price (BMP) and Density Bonus Programs

The BMP and Density Bonus Programs have been key components of the Town’s strategy for affordable housing production. For condo developments, the BMP Program requires developers to provide units affordable to median and low income households. For rental developments, developers must create units affordable to low income households.

As an enhancement to these programs, Seifel recommends that the Town actively seek to purchase additional affordability covenants and/or “buy down” affordability covenants in market rate for sale and rental developments that are required to provide BMP units. Affordability covenants are essentially deed restrictions on the property that retain the affordable housing price of the unit for a certain period of time. If Housing Funds are used, affordability covenants must be in place for at least 45 years for ownership properties and 55 years for rental properties.

As an example, for the Bay Tree Condominium Development by Lyon Capital Ventures, the Town may use its Housing Fund to purchase additional BMP units for sale beyond the required number of BMP units by the developer or provide additional subsidy to target lower income households.

While the Town’s Density Bonus Program is an important incentive for developers to include affordable housing within market rate developments, increasing density alone will likely not be enough to spur new affordable housing development. Since the BMP and Density Bonus Programs are dependent on market rate development, the Town will see fewer units produced through these programs in the near future due to the recent downturn in the real estate market and mortgage crisis.

B. Proposed Programs and Initiatives

In the next few years, the Town will need to focus on other tools to facilitate and encourage the development of affordable housing in Los Gatos. In past years, the Town and its Redevelopment Agency have collaborated with both for-profit and non-profit developers in the Bay Area to create new affordable housing development opportunities, primarily to create multifamily housing

²² “Substantial rehabilitation” is defined as a rehabilitation in which the rehabilitation costs constitute at least 25 percent of the after-rehabilitation value of the dwelling including the land value. AB 637 modified the CRL definition of substantially rehabilitated dwelling units such that, as of January 1, 2002, only agency-assisted substantially rehabilitated multifamily (three or more units) and agency-assisted substantially rehabilitated single family dwelling units (one or two units) will be included in the production unit calculation.

developments. More recently, the Town has seen fewer affordable housing developments proposals in Los Gatos for various reasons, such as high development costs and availability of suitable sites. To address these problems, Seifel recommends that the Town issue a Notice of Funding Availability and create a Property Acquisition Fund, as described in more detail below.

1. Issue Notice of Funding Availability (NOFA) for Multifamily Housing

The Town may issue a NOFA to attract proposals from for-profit and non-profit developers to develop mixed income or 100 percent affordable multifamily housing projects. Seifel recommends that the NOFA be written to request applications for both new infill development and acquisition/rehab of existing apartments in Los Gatos.

The NOFA may be geared toward specific project sites that the Town is investigating. Appendix B summarizes a preliminary list of sites that Seifel and Town staff have identified for potential new infill development and acquisition/rehab. The Town may issue a NOFA in the future for any of these sites once project readiness is established. Alternatively, an open NOFA may be written to encourage proposals for sites that have not been considered by the Town.

Seifel recommends that the NOFA outline the type of projects that the Town is looking for and the criteria that would be used to evaluate the proposals. The NOFA can be written to be flexible in terms of the type of tenure, income mix and special needs groups that the project must fulfill to encourage as many proposals as possible.

2. Create a Property Acquisition Fund

In the current real estate market downturn, the Town may take advantage of the decrease in property values to prepare suitable sites for affordable housing development by creating a property acquisition fund. The Town may use this fund to acquire vacant parcels or properties for redevelopment, with a particular focus on blighted and/or foreclosed properties.

Purchasing sites to be designated for future affordable housing is a proper use of Redevelopment Housing Set-Aside funds and may also be an effective way to decrease the Redevelopment Agency's excess surplus.²³

3. Purchase Affordability Covenants in Existing Apartments

The Town may purchase affordability covenants to increase the supply of affordable housing or "buy-down" existing affordability covenants to have deeper affordable units in existing rental properties. This recommended program is analogous to purchasing covenants in new developments in conjunction with the BMP program, but for existing apartments. Affordability covenants are essentially deed restrictions on the property that retain the affordable housing price of the unit for a certain period of time. If using Housing Funds, the covenants must be in place for at least 55 years for rental properties.

²³ Under California Redevelopment Law (CRL), an Agency must annually calculate and monitor whether it has accumulated an excess surplus in its Housing Fund. The CRL defines an excess surplus as unexpended and unencumbered funds accumulated in the Housing Fund that exceed the greater of \$1 million or the total amount deposited in the Agency's Housing Set-Aside Fund during the preceding four years. HCD annually monitors whether agencies have accumulated an excess surplus in the Housing Fund.

In existing and new rental developments, the Agency could provide a rehabilitation loan or another form of subsidy to a rental property owner in exchange for securing affordability covenants on a percentage of units and the owner's agreement to restrict rents on these units to levels that would be affordable to very low and low income households.

Each affordability covenant acquisition opportunity is unique because the owner may negotiate for a varying proportion of units to be restricted as well as the level of affordability. Seifel recommends that the Town work to secure units for very low and low income households through this program. In order to have a successful policy or program for purchasing affordability covenants, the Town must have a legal counsel that is familiar with structuring effective agreements, as well as dedicated resources for periodic monitoring to ensure that the agreements are met.

Seifel recommends that the Town investigate the potential of purchasing and buying-down affordability covenants for new rental developments coming on-line and existing apartments. In the tour with Town staff, Seifel identified a preliminary list of sites for acquiring covenants, as shown in Appendix B. In order to target existing apartments, the condition of the property and the background of the property owner should be assessed. The Town may then issue a Notice of Funding Availability (NOFA) to announce its intentions to purchase affordability covenants and attract interest from property owners.

4. Provide Zero Interest Loans for Secondary Dwelling Units

As one of the objectives of the Central Los Gatos Redevelopment Project Area, the Town and its Redevelopment Agency may sponsor a loan program to assist in the development of secondary dwelling apartment units for low and moderate income households. The Agency may provide zero interest loans for the production of secondary dwelling units in the Central Los Gatos Redevelopment Project Area that are restricted to occupancy by low and moderate income households, often called "in-law" units, typically referring to small one-bedroom or studio units located in existing single family homes or as detached units. If using Housing Funds, affordability covenants are required and must be in place for at least 55 years for rental properties. Seifel recommends implementing this program in an effort to increase affordable units in the Redevelopment Project Area.

C. Proposed Allocation of Resources

As funds for affordable housing are limited, the Town recognizes that its resources need to be prioritized to ensure the most effective use of funding. The recommended allocation of resources emphasizes a balanced Affordable Housing Strategy to meet the Town's housing needs, goals and obligations, as summarized in Table 1 of Appendix A.

As discussed in Section IV and summarized in Table 9, the Town has \$8.6 million available for affordable housing (as of the end of FY 2007/08) and projects another \$9 million will be available by FY 2013/14 for a total of \$17.6 million. Table 10 below summarizes the proposed allocation of the Town's current available funds for affordable housing and total projected available funds for affordable housing through FY 2013/14 for existing and proposed programs. As several of the existing programs are administered by other entities, the Housing Trust of Santa Clara County and the County's Office of Affordable Housing, Seifel recommends that the Town review the

goals and policies for these programs before allocating additional resources to them. The table below also shows the potential number of affordable housing units that may be created through each program or initiative with the available funding resources given development opportunities.

**Table 10
Proposed Allocation of Funds
Town of Los Gatos**

	Funds Available as of FY 2007/08	Total Projected Funds Available FY 2008/09 - FY 2013/14			
		Total Allocation	%	Projected Per Unit Local Subsidy	Units
Programs and Initiatives					
Existing					
Housing Trust of Santa Clara County (HTSCC) ^a	\$ -	\$ -	0%	N/A	N/A
First Time Homebuyer Program (HTSCC) ^a	\$ -	\$ -	0%	N/A	N/A
Housing Conservation Program (SCC OAH) ^b	\$ -	\$ -	0%	N/A	N/A
BMP Program - Purchase Additional Affordability Covenants	\$ -	\$ 1,000,000	6%	\$ 50,000	20
Proposed					
NOFA for Multifamily Housing					
Infill Development	\$ 2,928,000	\$ 5,000,000	28%	\$ 70,000	71
Acquisition/Rehab	\$ 2,196,000	\$ 4,500,000	26%	\$ 60,000	75
Property Acquisition Fund	\$ 1,464,000	\$ 3,000,000	17%	N/A	N/A
Purchase Affordability Covenants in Existing Apartments	\$ 976,000	\$ 2,000,000	11%	\$ 50,000	40
Other Housing Activities / Secondary Dwelling Loans	\$ 137,000	\$ 280,000	2%	\$ 30,000	9
Program and Initiatives Subtotal	\$ 7,702,000	\$ 15,780,000	90%	\$73,000	215
Administration Costs	\$ 878,000	\$ 1,800,000	10%		
Total Allocation	\$ 8,580,000	\$ 17,580,000	100%		

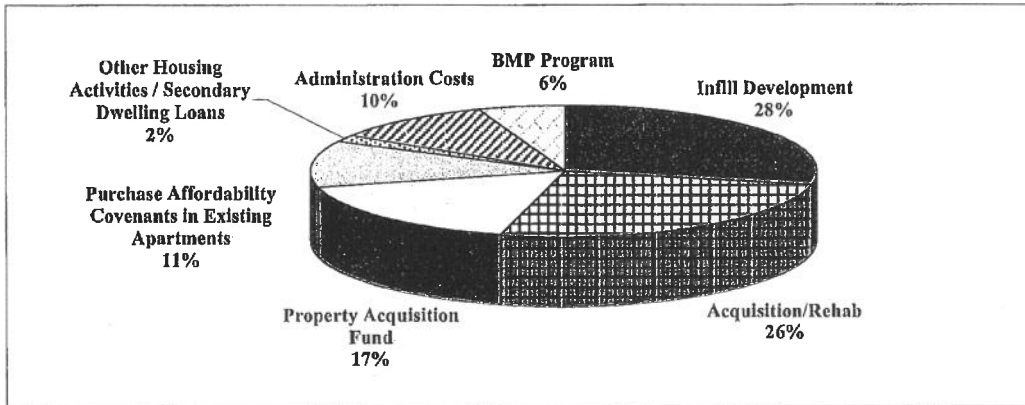
a. These programs are administered by the Housing Trust of Santa Clara County.

b. This program is administered by the County's Office of Affordable Housing.

Source: Town of Los Gatos, Seifel Consulting Inc.

Figure 1 demonstrates the proposed distribution of funds across the different programs and initiatives.

Figure 1
Proposed Allocation of Funds
Town of Los Gatos



VI. Conclusions and Next Steps

The Town and its Redevelopment Agency seek to use available resources to increase the supply of affordable housing in Los Gatos and to meet the Housing Element and Redevelopment Plan goals and obligations.

As such, Seifel recommends steps that the Town may take to enhance its existing housing programs. For programs that are administered in partnership with other entities, such as the Housing Trust of Santa Clara County and Santa Clara County Office of Affordable Housing, the Town may consider reviewing and refining its policies to ensure that the community's affordable housing goals are being met.

Seifel also recommends that the Town and Agency take steps to implement the following new programs and initiatives with support from the Town Council and community:

- Issue Notice of Funding Availability (NOFA) for Multifamily Housing
- Create a Property Acquisition Fund
- Purchase Affordability Covenants in Existing Apartments
- Provide Zero Interest Loans for Secondary Dwelling Units

Appendix A:
**Affordable Housing Strategy Tracking and
Evaluation Tool**

Appendix A: Affordable Housing Strategy Tracking and Evaluation Tool

As shown in Appendix Table 1, Seifel formulated a tracking and evaluation tool based on the Town's housing needs, goals and obligations to guide the development and implementation of the Affordable Housing Strategy. The recommended programs and resource allocation in the Affordable Housing Strategy were crafted to ensure that the Town meets all of its housing needs, goals and obligations, as summarized in the table. This matrix may also be used by Town staff and the Los Gatos community as an evaluation tool to help guide the Town's decisions impacting individual affordable housing programs and projects. For each category of needs, goals, and obligations, the criteria is measured by certain questions, the results of which are shown.

Appendix Table 1
Affordable Housing Strategy Tracking and Evaluation Tool
Town of Los Gatos

Criteria/Community-Affordable Housing Needs and Goals	Measured by	Result
Special Needs Households - Seniors	<ul style="list-style-type: none"> How many units are created for seniors? See also Redevelopment Obligations: Non-Age Targeting. 	# of Units See Below
Special Needs Households - Large Family	<ul style="list-style-type: none"> How many units of 3 bedrooms or larger are created? 	# of Units
Special Needs Households - Single Parent	<ul style="list-style-type: none"> How many units are created for single-parents? 	# of Units
Special Needs Individuals - Persons with Disabilities	<ul style="list-style-type: none"> How many units are created for and accessible to persons with disabilities? See also Housing Element Goal: Eliminate lack of disability accessibility. 	# of Units
Encourage mixed income housing developments.	<ul style="list-style-type: none"> What is the affordability mix? 	Mix of affordable and market rate units
Criteria: Housing Element Goals	Measured by	Result
Improve the choice of housing opportunities for senior citizens, families and singles and for all income groups through a variety of housing types and sizes, including a mixture of ownership and rental housing.	<ul style="list-style-type: none"> For what population is the housing being developed? What is the tenure of the units being developed? What is the mix of unit sizes? See also Community Affordable Housing Needs: Special Needs - Seniors and Redevelopment Obligations: Non-Age Targeting. 	# Units by population (Senior/Family/Singles) # Units by Tenure (Ownership/Rental) # Units by size (bedroom count)
Preserve existing moderately priced and historically significant housing.	<ul style="list-style-type: none"> How many housing units are significantly rehabilitated, particularly for moderate income households (per CRL definitions)? How many historically significant units are preserved? 	# of Units by Rehabilitation/Preservation # of Historically Significant Units
Eliminate racial discrimination, lack of disabled accessibility and all other forms of discrimination that prevent free choice in housing. Make infrastructure projects and residential and nonresidential developments be compatible with environmental quality and energy conservation.	<ul style="list-style-type: none"> Does the development provide ADA-compliant accessibility? Will the investment result in infrastructure improvements with the highest energy efficiency ratings and/or providing improvements to the Town environmental quality? 	Yes/No Yes/No
Reduce the homeless population.	<ul style="list-style-type: none"> Does the project provide housing for the formerly homeless or housing for the homeless population? 	Yes/No
Provide housing affordable to people who work in the Town.	<ul style="list-style-type: none"> Does the population being served by the housing work in Los Gatos? Is the housing affordable to all residents who work in Los Gatos? 	Yes/No Yes/No
Criteria: Redevelopment Goals and Objectives	Measured by	Result
Expand and improve of the community's supply of low- and moderate-income housing.	<ul style="list-style-type: none"> How many housing units are created &/or significantly rehabilitated, particularly for low &/or moderate income households (per CRL definitions)? 	# of Units affordable by CRL definitions
Initiate affordable housing projects within the Central Los Gatos Redevelopment Project Area.	<ul style="list-style-type: none"> Is the project located within the Central Los Gatos Redevelopment Project Area? How many housing units are created &/or significantly rehabilitated, particularly for low &/or moderate income households (per CRL definitions)? 	Yes/No # of Units affordable by CRL definitions
Provide zero interest loans for secondary dwelling units in the Central Los Gatos Redevelopment Project Area.	<ul style="list-style-type: none"> Is the project located within the Central Los Gatos Redevelopment Project Area? Is the unit a secondary dwelling unit? 	Yes/No Yes/No
Criteria: Redevelopment Obligations	Measured by	Result
Produce affordable housing in accordance with production requirements.	<ul style="list-style-type: none"> How many affordable units are located within the Central Los Gatos Redevelopment Project Area? (If not in Project Area, Agency receives 1 production credit for every 2 affordable units.) Does development contribute to Agency's obligation that 15% of all units built are affordable (40% of which must be affordable to very low income) according to CRL definitions? 	# of Units within Project Area # of Affordable Units Yes/No % of Affordable Units in development
Target Housing Set-Aside Fund expenditures to non-age restricted housing.	<ul style="list-style-type: none"> What amount of Housing Fund monies are spent towards the Agency's income targeting obligations as outlined in Table 6 of the Strategy? 	\$ Amount spent at each income level \$ Amounts as % of total Housing Fund expenditures during obligation period
Target Housing Set-Aside Fund expenditures to income level.	<ul style="list-style-type: none"> What amount of Housing Fund monies are spent towards the Agency's non-age restricted targeting obligations as outlined in Table 7 of the Strategy? 	\$ Amount spent on non-seniors \$ Amounts as % of total Housing Fund expenditures during obligation period

Appendix B:

**Potential Sites for New Infill Development, Acquisition/Rehab and
Purchasing Affordability Covenants**

**Appendix B:
Potential Sites for New Infill Development, Acquisition/Rehab and Purchasing
Affordability Covenants**

1. Potential Sites for New Infill Development

a. Ditto's Lane

Ditto's Lane is a privately-owned property containing an abandoned building, formerly a bordello, and three other existing structures. The Town is interested in acquiring the property and working with a developer to produce affordable housing units on the site. The Town has placed an offer to purchase the property in the past, but was rejected by the owner. The Ditto's Lane site currently does not have sufficient access rights to build additional units. Town staff believes that obtaining access rights and improving access for the site will be challenging because access from College Avenue is not feasible.

b. Park Avenue

Park Avenue is a privately held property containing six housing units located within the boundaries of the Redevelopment Project Area. The approximately 0.7-acre site is adjacent to a Town-owned parcel with access from S. Santa Cruz Avenue, which the Town may consider combining with the Park Avenue site to provide additional developable space. Some of the site's development challenges include parking, topographic constraints and conservation regulations governing existing trees on the land.

2. Potential Sites for Acquisition/Rehab of Existing Apartments

a. Foothill Apartments

Foothill Apartments is a 21-unit building within the Central Los Gatos Redevelopment Project Area in Downtown Los Gatos. According to Town staff, a developer has expressed interest in creating affordable units on the site and is willing to work with the Town.

b. Riviera Terrace Apartments

Seifel recommends that the Town evaluate the potential project at Riviera Terrace, a 123-unit apartment building at the end of Town Terrace Road. Sobrato Development currently owns the building and has expressed interest in the past of rehabilitating the apartment and converting the units to below market rate and creating 100 additional market rate units in the back of the site in parking area. The project was rejected by the Town's Conceptual Development Advisory Committee, the initial planning approval committee for development applications, in the past due to the size of the proposed development and potential traffic impacts.¹

¹ "Expansion of Riviera Terrace Apartments draws criticism from advisory committee." Los Gatos Weekly Times. July 18, 2001.

3. Potential Sites for Purchasing Affordability Covenants in Existing Apartments

a. Bay Tree Condominium Development by Lyon Capital Ventures

Lyon has an approved planned development application to convert 56 rental units to condominiums, resulting in an obligation of 8 affordable units under the Below Market Price (BMP) Housing Program. The Town could consider the possibility of buying additional BMP units or converting several of the currently proposed BMP units into units that are affordable to lower income levels.

b. Landmark/La Mar Apartments and Town Terrace Road

In the tour with Town staff, Seifel viewed the Landmark and La Mar apartments on Oka Road and other small and large rental properties along Town Terrace Road as potential projects. These properties may be investigated further as opportunities for purchasing affordability covenants.