



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Jacky Morales-Ferrand

**SUBJECT:** SEE BELOW

**DATE:** November 15, 2016

Approved

*Kin Walsh*

Date

*Nov-17, 2016*

**COUNCIL DISTRICT:** Citywide

**SUBJECT: PILOT PROJECT TO PROVIDE AFFORDABLE WORKFORCE  
HOUSING FOR PUBLIC SCHOOL TEACHERS AND STAFF**

## RECOMMENDATION

It is recommended that the Community and Economic Development Committee:

1. Accept this report on efforts to pursue a pilot project to provide affordable housing for public school teachers and staff on school district land; and
2. Provide direction to Housing Department staff.

## OUTCOME

The Committee will be presented with information concerning the Administration's efforts to facilitate the provision of affordable housing for public school staff and will be able to provide direction to the Housing Department on this issue.

## BACKGROUND

### The Schools-City Collaborative (SCC)

The SCC is comprised of school district superintendents, the Mayor, and City Administration. The SCC is co-chaired by Mayor Liccardo and Berryessa Union School District Superintendent Will Ector, and brings together all 19 San José superintendents, City Directors, and staff. The objective of the collaborative is to identify issues that are common priorities and jointly address them.

In response to recruitment and retention problems directly tied to the high cost of housing in this area, the SCC has made affordable housing for teachers and other school district staff a priority for their FY2016-17 work plan. The district's ability to directly address this issue has been enhanced by a new State law, Senate Bill (SB) 1413, that now allows school districts to develop housing on district-owned land for teachers and other employees who face challenges in securing affordable housing.

### The City's Past Experience with Employee Housing

The City's first response to this challenge was the Teacher Homebuyer Program. Between 1999 and 2012, the City funded about 740 down payment assistance loans financed by revenue in the Low- and Moderate-Income Housing Fund from the now-defunct Redevelopment Agency. This number includes loans made to other credentialed staff who were subsequently made eligible for the Program. When the program was first started, the average loan was approximately \$40,000 per household. However, as the price of ownership housing rose, the amount of down payment assistance needed by the borrower made the program prohibitively expensive. The elimination of Redevelopment funding only exacerbated this funding deficiency.

In the early 2000s, the City also financed four rental housing developments – with a total of 440 apartments – in which public school teachers were given preference. Unfortunately, in the time that elapsed from the projects' initial conception to completion of construction, teachers' salaries had risen above the income limits of both City and Low-Income Housing Tax Credits (LIHTC) financing. Thus, teachers were no longer eligible to be housed in these developments.

This memorandum provides a summary of (a) the need school districts are facing recruiting teachers and other staff; (b) principles the school districts may need to consider to develop viable affordable housing projects; and (c) how the City may be able to assist with the effort.

## ANALYSIS

### The Need

Public school districts in San José have historically faced problems recruiting teachers and other staff due to the high cost of housing in Santa Clara County. This situation has been exacerbated by the phenomenal increases in housing costs over the past few years. The median prices for single-family homes and townhomes/condos are \$920,000 and \$603,000, respectively. The average teacher earns \$77,300 a year. At this salary, purchasing a condominium will be out of reach without a significant down payment. Monthly rents on one-bedroom apartments are about \$2,250. Even finding an affordable apartment may be challenging.

Precise data for the K-12 public education sector in San José is not readily available because some of the 19 elementary, high school and unified districts that serve San José (plus the County Office of Education) encompass territory in other cities and unincorporated areas. However, it is

estimated that there are about 233 K-12 schools employing about 6,940 teachers serving about 156,000 students within the City. No data is currently available regarding the numbers of school district employees who are not teachers, so the number of non-teacher employees could not be estimated.

### Considerations for Developing Workforce Housing

There are a five basic elements that a school district should consider to assist in the development of a successful workforce housing project. Understanding these considerations may help a district to design an effective development strategy.

#### *Understanding the Customer*

To be successful, the school district should understand the needs of the market they want to serve. One method of obtaining feedback is to survey staff and teachers to better understand their current circumstances, their needs, and their desire to live in a development set-aside for employees. A survey would help to verify and quantify potential demand for the development and, once completed, it could be used as a tool to help market the need for the development. Components of a successful survey to assess demand would include compiling information on employee's household size, income levels, transportation costs, need for amenities, ability to pay, and current housing costs. More importantly, if the district were to offer rental housing exclusively for district employees at below market rate rents, would the employees be interested in living in such a complex?

#### *Identifying a Site and Obtaining Entitlements*

If there is enough interest from employees, the district would need to identify one or more portions of its property holdings where the housing development could be located. Sites as small as one-half to one-third of an acre would be suitable to build a rental development. School districts could consider surplus land, under-utilized sites, and obsolete buildings for potential housing development. Districts could also consider co-locating affordable housing with administrative uses such as office buildings. Co-locating the affordable housing also provides an opportunity to share infrastructure, such as parking garages, which would help to lower costs.

School district housing projects in the City would need to comply with the City's General Plan and Zoning Code. Building Code review would likely remain under the purview of the Division of the State Architect because the developments would be located on district-owned property. The district would need to retain the services of a land use consultant to identify land use or environmental issues associated with such sites and what the regulatory path for project approval would entail.

### *Financing Strategy*

Financing options for workforce housing range from loans, grants and specialized programs with numerous restrictions and income targets. Developing workforce housing requires extensive knowledge of these resources, as well as an ability to pull together as many of these options to create a financing strategy. Because traditional affordable housing financing is so complex, it is likely a school district would need a financial consultant if it decided to use tax credit financing.

Recently adopted SB 1413 permits districts to develop housing affordable to moderate income households up to 120% of Area Median Income (AMI) on district owned property. Previously, a district could not limit housing built on its land exclusively for its employees. This would encompass most teachers, whose average salary of \$77,370 in Santa Clara County is approximately 91% of AMI for a single-person household per the most recently published data.

SB 1413 also allows districts to qualify for Low Income Housing Tax Credits (LIHTC). Tax Credits have a low income (60% of AMI) cap on eligibility for LIHTC for apartments accommodating a single-person household. Most teachers would not be able to qualify housing funded with Tax Credits. However, it is possible that newly hired teachers who have lower salaries than the average teacher could qualify. Lower paid district employees (custodial and clerical staff, for instance) with families could also qualify. It is in this regard that a district's survey of all of its employees is critically important.

Another financing strategy would be to use certificates of participation to fund the development. A certificate of participation (COP) is a type of financing tool that is commonly used by school districts. A school district would pledge its general fund dollars as the security however the lease payments from the apartment building would be used to repay the COP. The down side of this approach is that it would require a much higher level of financial subsidy than would be needed for a tax-credit project. The advantage of this type of financing is that it is not inherently limited to low income housing. Therefore, districts could set the income limits at an appropriate level to target both staff and teachers.

### *Selecting an Experienced Housing Developer*

School districts do not typically develop and manage housing. Therefore, they would likely need to partner with or hire an experienced developer and a property management firm. The Bay Area has a large number of qualified and experienced affordable housing developers who are able to identify a range of financing tools necessary to fund housing developments that can make rents affordable to lower-income households. An interested school district could conduct a selection process to identify a development partner that best suits their needs.

### *Identifying a Champion*

Strong leadership is necessary to successfully engage the District Board and the community to address concerns and obstacles encountered in the course of developing the affordable housing.

A champion who can lead the effort will help to identify concerns and will exhibit a passion and persistence needed to overcome barriers and achieve results. There are often competing interests on potential land use. Examples of alternative uses include housing, ballfields, or office buildings. The champion should inspire both board members, elected officials, and community advocates to join in the effort and to support the vision of the project.

### The City's Role

The Housing Department has extensive experience in affordable housing development. It can offer technical assistance to those school districts which lack experience in financing, developing, owning, and managing rental housing complexes. The Housing Department is convening a meeting with interested school districts to begin the process of exploring available sites and next steps.

As noted above, districts should utilize consultants to assist them in charting the way through the City's land use regulatory process and identifying a financing strategy for specific sites and affordability levels. City staff can help guide school districts through this process and provide them with a lists of consultants for district administrators to consider. Additionally, the City could offer small grants to districts (up to \$15,000) to defray the costs of those consultants.

### PUBLIC OUTREACH

Development of affordable workforce housing by public school districts was discussed by the Housing and Community Development Commission on November 10, 2016. On November 18, 2016, this matter will be further discussed at a regular meeting of the School City Collaborative. Finally, this memorandum will be posted on the Community and Economic Development Commission agenda website for its November 28, 2016 meeting.

### COORDINATION

Preparation of this memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

### COMMISSION RECOMMENDATION/INPUT

On November 10, 2016, this matter was presented by the Housing Department for input from the Housing and Community Development Commission. The Committee accepted Staff's report and supported further efforts on the project.

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

November 15, 2016

**Subject: Pilot Project to Develop School District Workforce Affordable Housing**

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**CEQA**

Not a Project, File No. PP10-069(a), Staff Reports

/s/

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Director, Housing Department

For questions, please contact Patrick Heisinger, Senior Development Officer, at (408) 975-2647.