

Financial Assistance for Affordable Housing

The City's longstanding goal is to generate adequate housing to accommodate its growing population and workforce, including its teachers, first responders, baristas, laborers, domestic workers, and others. The City is particularly focused on providing opportunities to accommodate affordable housing for families, seniors, and individuals with disabilities. To meet these aspirations, the City has devoted significant resources towards developing lower income housing. The City recognizes that local funding is key to a project's ability to obtain tax credits and so has implemented a comprehensive program to provide financial assistance to affordable housing developments, including:

- Funding Affordable Housing Development. In 2019 the City issued final certificates of occupancy for the Veranda project—which provides 18 extremely-low and very-low income senior units, as well as an extremely-low income manager's unit—on one of the sites designated in the City's Housing Element, exceeding the 11 lower income units that the Housing Element had projected. This project was developed with a density bonus, CEQA streamlining by using a categorical exemption, flexible development standards adopted to accommodate senior housing, and unanimous support from the Planning Commission and City Council.



Figure 1: Veranda. Source: Mercurynews.com

The Veranda project was the first project in Santa Clara County to utilize 2016 Measure A - Affordable Housing Bond funds with a \$1 million contribution, which resulted in six units of permanent supportive housing reserved for homeless seniors with disabling conditions. Consistent with its Housing Element strategies, **the City contributed approximately 43% of the total development costs** for a total of \$5,172,000. The City initially paid \$3 million for site acquisition and contributed \$1 million through Housing Trust Silicon Valley. Subsequently, the City added \$672,000, when the project was not able to acquire adequate funding, and \$500,000 in HOME Investment Partnerships Program (HOME) funds, when project labor costs escalated. The continued contributions to this project reaffirmed the City's commitment towards ensuring production of affordable housing.

The City now looks forward to the next 100 percent affordable housing project in Cupertino. The County of Santa Clara recently initiated purchase of an underutilized site in Cupertino, also to be funded with Measure A Affordable Housing Bond funds. The City held a study session to help facilitate public outreach for the acquisition and is currently exploring possible assistance for an affordable project to be proposed on the site.

- Annual Notice of Funding Availability (NOFA). The City annually issues a NOFA for Below Market Rate Affordable Housing Funds (AHF) for eligible capital housing projects on a one-year funding cycle. The current balance of AHF monies is \$6 million. (e.g. <https://www.cupertino.org/home/showpublisheddocument/25344/637067305228970000>)
- City Funding of Affordable Housing Program Administration. Cupertino fully funds program administration for all 242 affordable rental and ownership units in the City's portfolio, at a cost of \$270,000 per year (\$1,118 per unit), unlike many cities that have adopted fees for monitoring and administering affordable housing. This provides a substantial savings in operating costs to projects such as the Veranda, freeing \$20,100 per year for other uses for that project.
- Adoption of a Commercial Linkage Fee. The City has collected Below Market Rate (BMR) housing mitigation fees from non-residential development since 1992 to provide funds for affordable housing. To maximize these affordable housing funds, the City increased the commercial linkage fee for offices and hotels in 2020 based on a study commissioned by the City demonstrating that increased fees would be feasible. The City has also negotiated the payment of additional BMR funds as conditions of development agreements.
- Outreach. City housing staff affirmatively reaches out for housing opportunities and makes referrals to the City's non-profit housing partners, providing information about potential funding sources when property with the potential to be developed for housing comes up for sale. Staff monitors local real estate listings for multi-family housing, duplexes, and triplexes to identify suitable properties for acquisition. Over the course of each year, staff engages with multiple developers and non-profits to provide technical assistance.

Zoning and Land Use Incentives

The City of Cupertino continues to take actions to approve and incentivize the construction of affordable housing. The City has streamlined review of affordable housing projects and has approved housing on every site designated in its Fifth Cycle Housing Element for lower income housing. Housing approvals currently exceed the City's lower income RHNA.

To build on these efforts, the City has included several housing related projects as priority items on the City's Fiscal Year 2020-2021 and 2021-2022 Work Programs. This includes a Housing Strategies project with the objective to explore and adopt effective strategies and tools for the development of a variety of products across affordability levels including housing for the developmentally disabled and homes affordable to moderate, low, very-low, and extremely-low income households. The City also approved a work program item to consider options to develop Extremely Low Income (ELI) and BMR housing units for developmentally disabled individuals on City-owned property as well as investigating additional sites for BMR or ELI housing, with an estimated budget of \$250,000.

In addition, adopted Housing Element, zoning, and land use incentives for the development of affordable housing include:

- Parkland Dedication Fee and Construction Tax Waiver. The City waives parkland dedication fees and construction taxes for all deed-restricted affordable housing, whether included in an affordable project like the Veranda or affordable units in a market-rate housing development, as outlined in the City's Below Market Rate Procedural Manual. The average cost savings is \$54,795 per unit.
- Priority Approvals on Sites Designated for Lower Income Housing. The City adopted the 5th Cycle Housing Element in May 2015. By September 2016, it had approved housing development projects totaling 788 new residential units on sites designated for lower income housing. It also approved the Veranda senior housing project within seven months of receipt of the initial application. This project broke ground in April 2018 and was completed in May 2019. Over the past 14 years, the City has approved every development project application that would produce affordable housing.
- Generous Waivers and Concessions under Density Bonus Law. The City has granted generous waivers and concessions under density bonus law. Most recently, the City approved, among other waivers and incentives, a height waiver of close to 35 feet (an increase from 45 to 79 feet) for the Westport project; which, although entitled to a bonus of 35 percent (83 units), only requested a bonus of 13 percent (30 units). The City has also approved concession requests to locate affordable units in one building for the Westport and Marina projects, concessions which substantially increase the rate of return to the projects.
- Accessory Dwelling Unit (ADU) Incentives. In 2018, the City adopted amendments to its fee schedule to proactively reduce plan check and inspection fees for ADUs from \$7,500 or more, to a flat fee of \$2,500. The City is currently developing a program to allow residents to choose from pre-approved master ADU plans. Developers of manufactured or stick-built ADUs are being encouraged to submit plans for review as master plans and having these pre- approved by the City and available for residents to choose from, thereby streamlining permit review and reducing design costs for owners.
- Flexible Development Standards. The City provides flexible development standards to facilitate the development of affordable housing. The City implements this policy through its Planned Development zone, which allows the City to approve modified standards for otherwise applicable development standards for proposed projects. The City has consistently applied this policy to allow flexible development standards for proposed affordable housing projects, including the Veranda, Hamptons, and the Marina projects.
- Support for Funding Applications. The City supports the funding applications of qualified developers of 100 percent affordable housing for regional, state, and federal affordable housing funds, including Community Development Block Grants, HOME funds, Low Income Housing Tax Credits, and mortgage revenue bonds. The City recently issued support letters for the Veranda and Westport projects and assisted in the application process for tax credits.