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Redevelopment Agencies in California: History, Benefits, Excesses, and Closure

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Effective February 1, 2012, the State of California ceased operating local redevelopment agencies (RDAs), which had operated since the end of World War II. In recent times, these agencies served as an important component of the affordable housing development landscape in California. This paper, developed by the U.S. Department of Housing and Urban Development's (HUD's) Office of Policy Development and Research (PD&R), examines the history of California's RDAs, describes their successes and failures, and addresses the anticipated effects of their shut down on the future of affordable housing development in California. The first section of the paper traces the history and development of RDAs from their inception in 1945 through the legislative fight that dissolved them in 2011. The next section presents examples of the RDAs successes and failures over the years. The third section examines the RDAs closures and the anticipated impact that the closures will have on affordable housing development. The final section of this paper details how the closure of RDAs will affect affordable housing production in the cities of Los Angeles and San Jose.

RDAs in California: History

The history of RDAs in California dates to the California State Legislature's passage of the Community Redevelopment Act in 1945. The act provided the mechanism to create RDAs; however, most of the agencies relied on federal funding[1] until 1952, when Proposition 18 established "tax-increment financing." Under the new financing structure, cities and counties were given the authority to declare areas as blighted and in need of urban renewal, at which time a city or county was allowed to distribute most of the growth in property tax revenue for the project area to the relevant RDAs as tax-increment revenues.

Although Proposition 18 created additional flexibility regarding funding RDAs, distribution of property tax revenues remained a zero-sum game for cities and counties, because revenue given to one agency—for example, giving money to a school district—reduced the amount that remained available for other agencies. This dynamic resulted in few identified project areas during the 1950s and 1960s. Likewise, project areas that were identified during the period typically consisted of 10 to 100 acres, which was a relatively small project compared with later projects. The number and size of project areas were also restricted by the authority of local governments to raise funds from other sources. For example, at the time, the Constitution of the State of California allowed local governments to raise local taxes, both property and otherwise, without local voter approval. Cities and counties also had wide authority to impose fees and assessments. These additional revenue sources allowed local governments, if they desired, to perform redevelopment of areas that may have otherwise been deemed RDA-project areas without identifying them as such. As of 1966, 27 project areas had been identified within the state.

Redevelopment expanded in the number and size of project areas in the 1970s and 1980s, in large part because of two major state policy changes. The first, passage of Chapter 1406, Statutes 1972 (Senate Bill [SB] 90), created a system of school "revenue limits" that guaranteed each school district an overall level of funding via a combination of local property taxes and state resources. In short, the state assumed responsibility for funding local school districts up to the revenue limit if the revenue shortfall resulted from lack of growth in local property-tax income (whether because of redevelopment issues or for other reasons). This revenue limit effectively eliminated the zero-sum game for cities and counties regarding distribution of local property taxes and, in so doing, generated a significant incentive for cities and counties to create and expand RDA-project areas. By 1976, the number of project areas in the state had increased to 229. RDAs received 2 percent of total statewide property taxes in 1977.

The second policy change occurred in 1978 when Proposition 13 capped the general-purpose property tax rate at 1 percent, while also constraining local authority over many other local revenue sources. Much like SB 90, which reduced the burden on cities and counties to provide funding for local schools, Proposition 13 incentivized use of property-tax income for redevelopment by limiting the options available for local governments to otherwise finance redevelopment projects. In combination, the two policies inspired cities (and some small counties) to loosen their definitions of project area. In many cases, the definition of "project areas" was expanded to encompass hundreds or thousands of acres of land. During the period, at least two cities identified all privately owned land as within one project area or another

[1] Primarily via programs of the Housing and Home Finance Agency, HUD's immediate predecessor.

while other jurisdictions placed farmland under the redevelopment umbrella. The adoption of Assembly Bill (AB) 322 in 1983 prohibited the previously common practice of defining project areas that included large amounts of vacant land; however, the number of project areas had still expanded to 594 by 1988, when RDAs received 6 percent of total statewide property taxes collected that year.

In response to concerns that redevelopment was expanding at the expense of other local programs as well as increasing the state's costs for K–14[2] education, state lawmakers, with increasing urgency, attempted to constrain local governments' use of redevelopment funds from the 1980s through 2011. During the period, the California State Legislature enacted laws aimed at, among other things, strengthening regulations regarding the percentage of tax-increment revenues that RDAs used to develop housing for low- and moderate-income households. Passed in 1993, AB 1290 tightened the definition of a "blighted area" to "an area that is predominately urbanized and where certain problems are so substantial that they constitute a serious physical and economic burden to a community that cannot be reversed by private or government actions, absent redevelopment."[3] AB 1290 also limited the ability of RDAs to subsidize or assist auto dealerships, large volume retailers, and other sales tax generators, and it eliminated the authority of RDAs to negotiate so-called "pass-through payments," or payments made by RDAs to other local agencies, often to help settle disputes concerning the legality of proposed project areas. After the enactment of AB 1290, these pass-through payments were determined using a formula based on each local agency's share of the property tax rate in the project area. Many redevelopment projects were not affected by the changes, however, as the restrictions applied only to new project areas (with existing projects lasting as long as 50 years). Likewise, despite the more specific language regarding "blight" and "developed land"[4] in AB 1290 (as well as in 2006's SB 1206), RDAs continued to establish new large project areas.

On nine occasions between 1992 and 2011, the state also attempted to require RDAs to shift some of their revenue to schools via countywide accounts known as ERAF (Education Revenue Augmentation Funds) or SERAF (Supplemental Educational Revenue Augmentation Funds). These attempts were severely hampered in 2010, however, when state voters approved Proposition 22, which limited the state's authority over redevelopment and prohibited new state laws requiring RDAs to shift funds to schools or other agencies. Despite substantial efforts by the state to limit and refine the focus of redevelopment spending, RDAs received 12 percent of statewide property tax revenue in 2008, with six redevelopment projects that exceeded 20,000 acres in size.

New efforts to reduce the footprint of RDAs began shortly after the passage of Proposition 22 because the Governor's 2011–12 budget (SB 77) called for the dissolution of RDAs and redistribution of property tax revenue to, among other things, paying previously accrued redevelopment debts and offsetting $1.7 billion of state general funds costs. In March 2011, however, SB 77 fell one vote short of the two-thirds majority required for approval by the state legislature. Following the failed vote, the legislature evaluated modified versions of the Governor's initial proposal and, in June 2011, enacted two pieces of legislation. The first, Assembly Bill passed in the first extraordinary session (ABX1) 26, imposed an immediate freeze on RDAs' authority, dissolved RDAs (effective October 1, 2011), and outlined the process by which RDAs would be wound down. The second, ABX1 27, introduced a program by which RDAs could avoid the dissolution implemented by ABX1 26 by making annual payments to local school districts, thereby offsetting much of the fiscal impact of redevelopment on the state budget.

Consistent with the history of attempts to limit the authority of RDAs, ABX1 26 and ABX1 27 were immediately met with resistance. Less than 3 weeks after the bills were signed, the California Redevelopment Association (CRA) and the League of California Cities challenged the constitutionality of the legislation. In addition, in an attempt to avoid repercussions if the legislation were enacted, many RDAs began issuing unprecedented amounts of debt. In fact, despite paying higher borrowing costs than ever before, RDAs issued more debt in the form of tax allocation bonds during the first 6 months of 2011, approximately $1.5 billion, than they had in all of 2010, $1.3 billion. RDAs also rushed to transfer assets to other local agencies to suppress the level of funds that could be taken by the state via ABX1 26.

In December 2011, the Supreme Court of California upheld ABX1 26, supporting the legislature's authority to dissolve entities that it created (in this case, RDAs). The court, however, found ABX1 27 to be unconstitutional because it violated

[2] For budgetary purposes, "K–14 education" refers to the sum of kindergarten, grades 1 through 12, and public community colleges.

[3] Assembly Bill 1290, Community Redevelopment Law Reform Act of 1993, Section 3.b.

[4] Assembly Bill 1290, Community Redevelopment Law Reform Act of 1993, Section 7.5.

Proposition 22's prohibition against the state's forcing RDAs to share money with other local agencies. In combination, the court's rulings left all RDAs subject to the process described in ABX1 26.

Per ABX1 26, RDAs officially lost "all authority to transact business or exercise power"[5] on February 1, 2012, with successor agencies (in most cases the cities and counties in which the RDAs operated) becoming responsible for the winding down of the dissolved RDAs. The successor agencies were tasked with terminating or renegotiating former RDAs' contracts, collecting revenues due to the dissolved RDAs and making payments required of those RDAs, and "expeditiously" disposing of former RDAs' assets "in a manner aimed at maximizing value."[6] Proceeds accrued by successor agencies that were not needed to meet previous RDA obligations were required to be distributed to other local agencies as property tax revenue. In addition, to help offset the behavior of many RDAs after the announcement of ABX1 26, but before the Supreme Court's ruling, assets that were transferred after January 1, 2011, were also used to cover payment obligations or were distributed as property taxes if the state controller determined the transfer as not contractually committed to a third party. Successor agencies, however, were allowed to retain housing functions and assets previously held by the RDAs, with the exception of each RDA's Low and Moderate Income Housing Fund (LMIHF).

Before the enactment of ABX1 26, the state mandated that each RDA allocate at least 20 percent of its annual tax-increment revenues into LMIHF, ostensibly to improve and expand the availability and supply of affordable housing in the respective RDA; however, many RDAs had simply accrued substantial balances in their housing funds. As of fiscal year (FY) 2009–10, in fact, reports submitted to the California Department of Housing and Community Development (CA HCD) showed that the unencumbered portions of RDAs' housing funds totaled as much as $2.2 billion. ABX1 26 dictates these funds be distributed to schools, counties, and other local agencies.

Although the dissolution of RDAs will not decrease the level of taxes paid by property owners, it will result in additional property tax revenues being distributed to other local agencies, including cities, counties, and schools. In turn, the additional revenue will substantially reduce the amount of state revenue required to finance the K–14 education program. This reduction could prove a boon to state taxpayers, but it raises some questions concerning the future of redevelopment in the state, particularly regarding affordable housing. The state currently has several agencies that are at least partially aimed at providing housing for low- and moderate-income households, including the California Tax Credit Allocation Committee, which administers low-income housing tax credit (LIHTC) programs in the state; the CA HCD, which provides grants and low-interest loans to developers of affordable housing via state general obligation funds; and the California Housing Financing Agency, which assists first-time homebuyers with low-interest mortgages and loans as well as helping to finance the development of multifamily rental housing through the sale of tax-exempt mortgage revenue bonds and associated LIHTCs. Likewise, existing laws present local governments some options for acquiring financing for redevelopment projects, including business improvement districts, infrastructure financing districts (IFDs),[7] and property tax overrides. No longer is there any requirement that increased property tax revenues be used for redevelopment, however, much less affordable housing, which could provide an obstacle for future redevelopment efforts.

RDAs in California: Benefits and Excesses

Some RDAs were able to attract businesses to previously depressed areas and undertake the cleanup of contaminated areas. For example, the city of Emeryville's industrial decline during the 1980s left the area with acres of contaminated land from a sulfur/insecticide plant, pigment plant, and steam drum-cleaning operation. The previous industrial owners were unwilling to proceed with redevelopment plans of the area because of the significant toxic cleanup costs. The city's RDA led cleanup efforts in the area now known as Bay Street and provided 400,000 square feet of new retail and entertainment space, creating approximately 940 new jobs and 375 new residential units above retail space in mixed-use buildings; 20 percent of the residential units are affordable at the very low-income level.[8]

In another example, in the city of Vista's downtown center, Vista Village, businesses began to close and the infrastructure deteriorated as the area underwent an economic decline. Former

[5] Assembly Bill X1 26, Chapter 2, Section 34172.b (California, 2011).

[6] Assembly Bill X1 26, Chapter 4, Section 34181.b (California, 2011).

[7] San Francisco County is the only county in California that is allowed to have IFDs overlap former RDAs.

[8] CRA (2010).

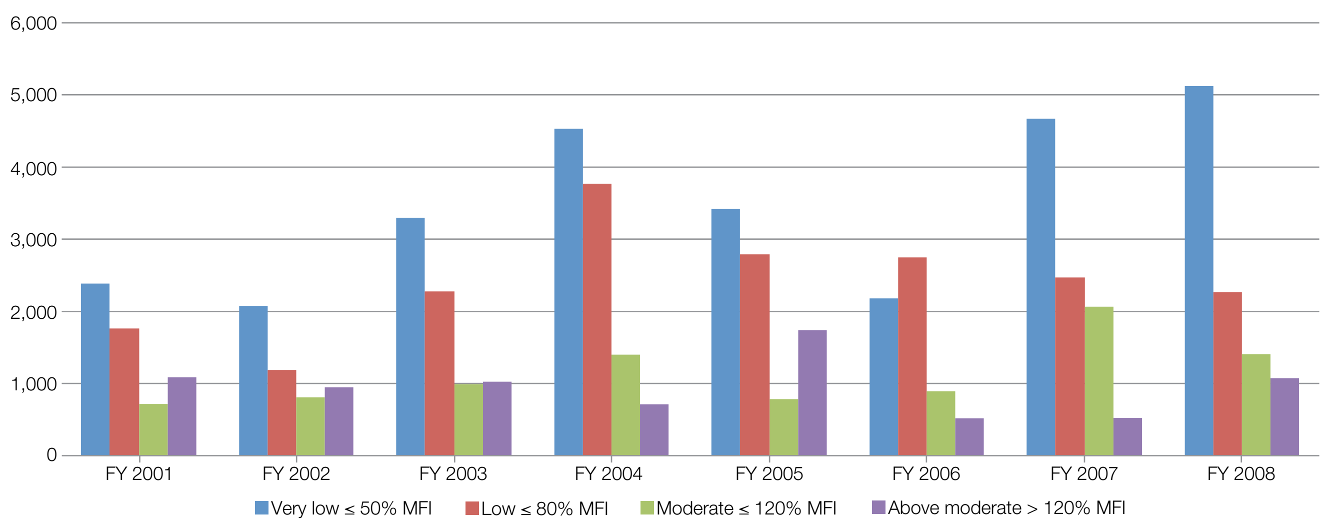
businesses left behind soil and ground water contamination. The city's RDA spent more than $1 million to clean up the areas during the last half of the 1990s. The redevelopment project also made improvements to the existing Main Street, which included a new park-like, open-space area called Creekwalk Park. As a result of the project, the area added more than 40 new businesses and roughly 700 new jobs and encouraged more than $55 million in private investment in the project.[9]

The University Village community in the city of Riverside provides yet another example. The city's RDA transformed the high-crime area, which included an abandoned auto dealership and gas station, into a mixed-use development that attracts University of California-Riverside students and community residents. The University Village Redevelopment Project generated more than $75 million in private investment, created 600 jobs, and led to the construction of student housing units and student parking lots.[10]

In addition to helping with the cleanup of previously contaminated areas, RDAs helped fund the construction of new affordable housing units. The city of Sacramento's RDA helped transform the crime-ridden Franklin Villa apartments into the Phoenix Park Apartments, with 360 units of affordable rental units. In 2000, construction began on 102 single-family homes in the Vista del Rio housing complex in the cities of Bell Gardens and Commerce. One-half of the units are affordable for low- to moderate-income families. The city of Riverside's RDAs renovated a 64-unit housing complex located in the University neighborhood that is restricted to low- and moderate-income households. Other RDAs across the state have added to the stock of affordable housing units. According to data from the CA HCD, RDAs in the state created 63,600 new affordable housing units from FY 2001 through FY 2008. Figure 1 shows the breakdown of housing units by affordability level created by RDAs. During the 8-year period, approximately 44 percent of new housing units constructed by RDAs were affordable at the very low-income level (at or less than 50 percent of MFI).

In response to the Governor's proposal to dissolve RDAs in the state, the Legislative Analyst's Office (LAO) evaluated the performance of RDAs and found no evidence that RDAs improved overall economic development in California and that the program shifted funds away from necessary services, such as education.[11] The Governor's Office concluded that the private development that occurred in redevelopment project areas would have occurred without RDAs and that redevelopment only shifted projects from one area of the state to another.[12]

Figure 1. Affordable Housing Units Constructed From FY 2001 Through FY 2008



FY = fiscal year. MFI = Median Family Income.
Source: State of California Department of Housing and Community Development

[9] CRA (2010).

[10] CRA (2010).

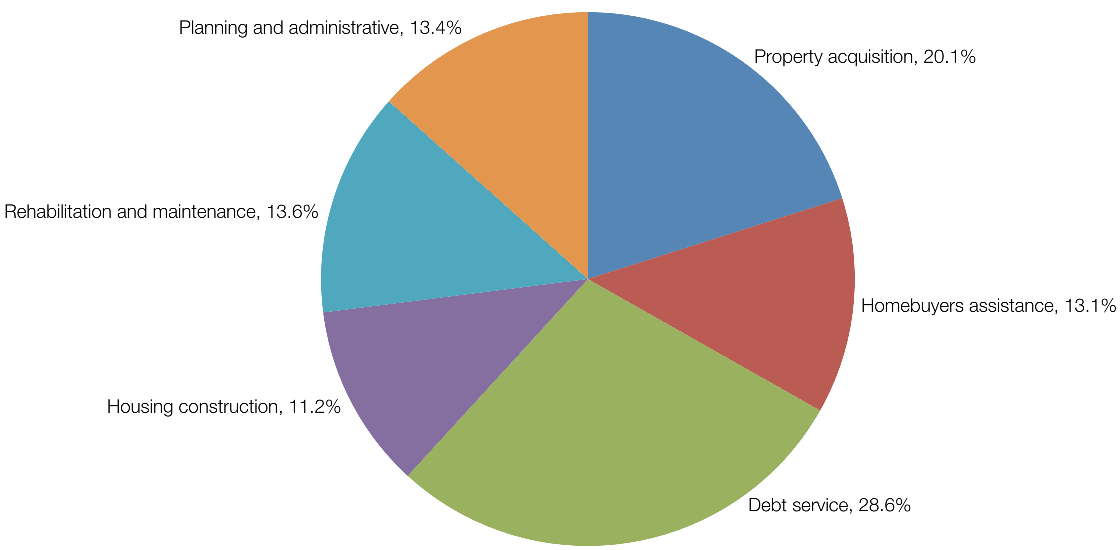
[11] CA LAO (2011).

[12] California Governor's Office (2011–12).

Although some RDAs succeeded in creating new affordable housing units, from FY 2001 through FY 2008, only 11 percent of the funds set aside in the LMIHFs were used for housing construction, according to data by CA HCD (figure 2). Of more than 430 RDAs in California, 101 spent at least $100,000 of their LMIHF budget but did not build a single unit during the 8-year period.[13] For example, the city of Santa Ana's RDA spent $22 million to purchase and demolish homes in the east side of town, displacing low-income residents without replacing any units. The city originally planned to build newer apartments and townhomes in the area, but a plan was never adopted for the site. The area is now filled with abandoned homes and vacant lots without any new development.[14] The city of Irwindale likewise spent $87 million from FY 2001 through FY 2008 and produced only 42 new homes and 62 rehabilitated units. The RDA spent a portion of the funds to acquire industrial land next to an old gravel pit and warehouses, which the city now concedes was unsuitable for housing.[15]

Not only have some RDAs been unable to produce affordable housing units, others have invested in retail projects that ultimately failed to produce the sales tax revenues anticipated as a result of retailers leaving the area. The city of Costa Mesa used $62 million of RDA funds and eminent domain to clear out several existing businesses for the construction of the Triangle Square Mall, located in the city's downtown. The project was expected to pull in $1 million in sales tax revenues annually, but, in 2004, the city collected only one-fifth of the anticipated revenues, at $200,000. The mall is now largely vacant, because many of its anchor tenants, including Niketown, Virgin Megastore, and Barnes and Noble, left.[16] A similar situation occurred in the city of Indio, which planned to expand the Indio Fashion Mall, which had been losing traffic to the trendier Westfield Shoppingtown Mall in Palm Desert. After the city demolished 80 homes, several stores, and a low-income housing project, plans for the expansion with the original developer fell through. The mall continues to lose business, with many tenants unable to make even a single sale in a day.[17]

Figure 2. RDA Spending, FY 2001 Through FY 2008



Source: State of California Department of Housing and Community Development

[13] Christensen, et al. (2010).

[14] Castle Coalition (2011).

[15] Christensen, et al. (2010).

[16] Castle Coalition (2006).

[17] Pena (2008).

RDAs in California: Closure

The Anticipated Impact of Closure on Affordable Housing Development

The closure of RDAs across California and the removal of RDA financing for affordable housing developments are expected to reduce the number of new affordable housing units in the foreseeable future if current financing structures and incentives for affordable housing development prevail. No approved measures currently allow for an equivalent statewide set-aside fund exclusively for providing future affordable housing after all existing obligations are met by the successor agencies.[18] Several bills have been proposed following ABX1 26 to mitigate the impact of RDA closures, however. AB 1585, approved in September 2012, extends the use of monies in the LMIHF by the successor agency for the purpose of funding administrative and planning costs relating to existing enforceable obligations. The amount of existing monies in the LMIHF needs to be expended or encumbered by 2015 because, after 2015, the uncommitted funds will be transferred to the CA HCD for low-income housing programs.

Measures that would allow for the creation of districts or areas for redevelopment, including the development of affordable housing, and for the collection of funds to support that development were introduced, but they were either vetoed or failed to pass the Assembly or the Senate. These proposed measures include SB 1156, AB 2144, and SB 1151. SB 1156 proposed the creation of Sustainable Community Investment Areas and a tax-increment collection to support project construction. AB 2144 proposed housing development through a Redevelopment Property Tax Trust Fund. SB 1156 and AB 2144 were vetoed during 2012. SB 1151 proposed the formation of new redevelopment agencies, allowing access to RDA assets with a focus on sustainable communities; however, the bill failed to pass through the Assembly Committees on Housing and Community Development and Local Government toward the end of 2012.

Despite the difficulties for restoring RDA-like functions on a statewide level, San Francisco has set a precedent in providing new, affordable housing development through revisions of its IFDs. By state law, IFDs typically may not overlap any former RDA's project area. San Francisco has been largely able to modify existing laws because of its county-city distinction. The legal revisions of the IFDs in San Francisco have allowed for the designation of IFDs on a formerly designated RDA's project area, with funds allocated, in part, to developing affordable housing through tax increments. In addition, the approval of Proposition C in San Francisco in November 2012 created a San Francisco Housing Trust Fund that would set aside revenues, starting in FY 2013, to create, acquire, and rehabilitate affordable housing and to promote affordable homeownership programs in the city through 2043. It also authorized the development of up to 30,000 affordable rental units in San Francisco.

While the impact of RDAs' closures will be mitigated in San Francisco as a result of the approved ballot measure, municipal and county officials expect that both agency-specific affordable housing developments and developments using other sources of primary funding throughout California will be affected by the RDAs' closures. RDAs' financing and the incentives under AB 3674, passed in 1976 by the California State Legislature, supported the development of affordable housing. Under AB 3674, at least 20 percent of the RDAs' tax-increment funds needed to be allocated to the LMIHF. During the past 6 years, the minimum 20 percent under AB 3674 translated into approximately $1.02 billion annually that was set aside for the development of affordable housing, according to the California State Controller's Office.[19]

Existing RDA housing developments under the RDA dissolution process will be funded through the LMIHF. All former RDA developments that are currently under construction and developments that have enforceable agreements, as proposed by the successor agencies and as approved by the California Department of Finance, will be funded to completion as an enforceable obligation out of the LMIHF. In all cases, developments that are enforceable obligations need to have been approved by the RDA by December 31, 2010. Any development that was submitted after December 31, 2010, will not be eligible for funding through the successor agency and the LMIHF.

RDA financing also served as gap financing for projects that had LIHTC and HUD Section 108 Loan Guarantee Program

[18] Existing affordable housing obligations will be financed through the Low and Moderate Housing fund; however, after all existing obligations are met, any remaining amount in the fund be transferred back to a general state tax collection.

[19] Some RDA areas had set the percentage of their tax increment higher than the minimum 20 percent. For example, the former Anaheim RDA had allocated 30 percent of the tax increment to the Low and Moderate Income Housing Fund.

financing under the Community Development Block Grant (CDBG) program.[20] The closure of RDAs is expected to impact housing provided through the LIHTC program, because developers of affordable housing frequently used RDA financing to fill funding gaps in LIHTC or tax-exempt bond developments. According to the California Tax Credit Allocation Committee, 62 percent of all 9-percent LIHTC awards also had RDA financing during the 2011 awards round.[21] The closure of the RDAs is expected to reduce the number of projects competing for LIHTCs in coming years, but the exact amount is uncertain at present. In addition, according to former RDA jurisdiction personnel, CDBG and HOME funding was often used to finance the upfront costs associated with an affordable housing development; however, RDA financing would fill the financial gap to ensure the project's completion.

Statewide, RDAs were planning to construct approximately 12,050 units during a 2-year period from January 2012 to December 2013, according to data from Housing California and the California Housing Consortium. Housing California is a statewide nonprofit organization representing a coalition of advocates for affordable housing and homeless issues. The California Housing Consortium is a nonpartisan group of developers, builders, financial experts, and public sector groups united to advance affordable housing and community development across California. Of the largest RDA areas[22] that were surveyed in California, 4,525 units, or approximately 60 percent, of affordable housing that was proposed to complete construction within the year will not receive funding through the successor agency.

Taken together, the removal of RDAs as a source of funding for affordable housing development is expected to result in a statewide average annual loss of 4,500 to 6,500 new affordable units through the foreseeable future after all enforceable obligations have been met.[23] This estimated annual loss represents a total that would likely have been delivered under RDA financing had the RDAs been allowed to continue and includes both agency-specific developments as well as developments that relied on RDA gap financing.

How Closure Will Affect Affordable Housing Production in Two Cities

The city of San Francisco was considered as a case study; however, the implementation of Proposition C is expected to greatly mitigate the adverse impact on the provision of affordable housing in the area following the RDA closures.

Case 1: City of Los Angeles

Since 2000, the RDA in the city of Los Angeles has constructed approximately 300 units of affordable housing annually, accounting for nearly 20 percent of total affordable housing delivered in the city. RDA units have helped to house some of the 891,300 households who reside in the city and who would qualify for low- to moderate-income housing. Since 2000, however, growth in the affordable housing market has not kept pace with growth in the number of low- to moderate-income households. The number of income-eligible households in the city has increased by an average of 17,050 households, or 2 percent, annually since 2000 compared with an increase in affordable housing units by an average of approximately 1,650 units annually. Approximately 75 percent of income-eligible households in the city are renters, or 672,300 renters. Growth in the number of income-eligible renter households has accounted for 67 percent of total growth in the number of low- to moderate-income households, increasing by an average of 11,500 households annually since 2000—a trend that is expected to continue during the foreseeable future.

According to Housing California and the California Housing Consortium, 827 RDA housing units are located in the city of Los Angeles that had been planned for completion over the next 2 years, and which now are expected to not receive funding. The shortfall of planned affordable units from the RDA's closure is expected to place pressure on low- to moderate-income households, because these households will continue to increase in number but the availability of new affordable housing will decline. Even with RDA assistance, new affordable units have been able to cover only 10 percent of the growth in the number of low- to moderate-income households. The closure of the

[20] The LIHTC and CDBG programs represent the largest existing programs in California that support affordable housing development.

[21] Awardees with RDA financing would include those RDA projects that have enforceable agreements (Pavão, 2011).

[22] RDA cities surveyed were located in the following counties: Alameda, Contra Costa, Imperial, Los Angeles, Marin, Napa, Orange, Riverside, San Bernardino, San Diego, San Francisco, San Mateo, Santa Clara, Solano, Sonoma, and Ventura.

[23] The annual estimate is based on cost-per-unit data from the CA HCD and tax-increment dollars from the California State Controller's Office during the past 3 years. The range in total number of units depends on variations in the costs of construction and the amount set aside by former RDA jurisdictions.

RDA is expected to reduce the number of new affordable units to a level that would cover only approximately 8 percent of the anticipated increase in the number of low- to moderate-income households.

Although the ratios are improving, the average gross rent-to-income ratios are still high. The average gross rent currently is as high as 43 percent of the maximum eligible household income and is 70 percent or more of income for households that earn 30 percent of the MFI. By comparison, during 2000, the average gross rent was as high as 46 percent of maximum eligible household income and was 80 percent or more of incomes for households that earn 30 percent of MFI. Since 2000, one-person, income-eligible households have experienced the highest cost burden, paying at least 40 percent of income in rent. The current number of one-person, income-eligible households has increased since 2000 by 15 percent, and these households currently account for 47 percent of all income-eligible households in the city compared with 37 percent of all eligible households during 2000. The prominence of one-person, income-eligible households as a proportion of total eligible households is expected to continue in the future.

Case 2: City of San Jose

The RDA in the city of San Jose has constructed approximately 370 units of affordable housing annually since 2000, accounting for 23 percent of total affordable housing delivered in the city. These RDA units have helped to house some of the 116,100 households who reside in the city and who would qualify for low- to moderate-income housing. As with the case for the city of Los Angeles, however, growth in affordable housing since 2000 has not kept pace with growth in the number of low- to moderate-income households. The number of income-eligible households in the city has increased by an average of 1,350 households, or 1.3 percent, annually since 2000 compared with an increase in affordable housing units by an average of approximately 1,225 units annually. Nearly 60 percent of income-eligible households in the city are renters, or 66,300. Growth in the number of income-eligible renter households has accounted for 58 percent of total growth in low- to moderate-income households, increasing by an average of 780 households annually since 2000, a trend that is expected to continue during the foreseeable future.

A total of 1,096 RDA units were planned for construction in the city of San Jose during 2013 and 2014, however, most of these units are not expected to receive funding, according to data from Housing California and the California Housing Consortium. The shortfall of planned affordable units from the RDA's closure is also expected to place pressure on low- to moderate-income households, because, as with the case for the city of Los Angeles, these households will continue to increase in number while the availability of new affordable housing declines. Even with RDA assistance, new affordable units have covered only 90 percent of the growth in low- to moderate-income households. The closure of the RDA is expected to reduce the number of new affordable units to cover only approximately 80 percent of the increase in low- to moderate-income households.

In addition, the change in the designation of Difficult Development Areas (DDAs) for the purpose of the LIHTC under Section 42 of the Internal Revenue Code of 1986 by HUD for 2013 is expected to further adversely affect the provision of new affordable housing units in San Jose. According to the city of San Jose Housing Department, as of March 2013, the city had 8 projects in the pipeline, with a combined total of 725 affordable units. None of the projects currently have bond financing or tax credits. Of the 8 projects, totaling 177 units, 2 are located in the redesigned Qualified Census Tracts (QCTs) and are being considered for bond financing. The remaining 6 projects, comprising 548 affordable units, or 75 percent of the pipeline, will likely not be constructed as a result of the 2013 designation of DDAs, which eliminated the San Jose metropolitan area from the list. These 6 projects would need both bond financing and additional sources of financing to fill the gap left by the closure of the RDA. Furthermore, the city of San Jose Housing Department reports that the 2013 QCTs for San Jose provide very few future housing opportunities within the identified growth areas outlined in the recently adopted general plan. The identified growth areas in San Jose are located along major transit corridors, near transit stations, on infill land, in the downtown core, and in northern San Jose, the employment center. Transit-oriented developments typically are more costly than nontransit-connected areas. With the movement to ensure that affordable housing is located near jobs, services, and local transit, the elimination of the DDAs in San Jose places further strain on the future availability of affordable housing.

Since 2000, the average apartment rent in the city of San Jose has declined, while the MFI has increased. According to data from Reis, Inc., the average market rent for apartments during the third quarter of 2012 decreased by an average annual rate of 0.7 percent from 2000, while the MFI in the greater Santa Clara County area has increased by an average of 2.0 percent annually during the same period. Despite the decline in average rents and increase in MFI, low-income households remain burdened. The average gross rent is currently as high as 38 percent of the maximum eligible household income and is at least 69 percent of income for households that earn 30 percent of

MFI. By comparison, during 2000, the average gross rent was as high as 56 percent of maximum eligible household income and was 87 percent or more of incomes for households that earn 30 percent of MFI. As with the case for the city of Los Angeles, since 2000, one-person, income-eligible households have experienced the highest cost burden, paying nearly 40 percent of income in rent. Since 2000, the number of one-person, income-eligible households has increased by 16 percent, and these households have accounted for 57 percent of all income-eligible households in the city, a trend that is expected to continue in the foreseeable future.

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