City of Cupertino
10300 Torre Avenue
Cupertino, CA 95014
(408) 777-3308
Fax: (408) 777-3333

Community Development Department

Summary

Agenda Item No. 6 **Agenda Date:** December 6, 2006

Application Summary:
Adopt the Vallco Redevelopment Project Area 2006-2010 Implementation Plan

RECOMMENDATION

Adopt a resolution approving the 2006-2010 Cupertino Vallco Redevelopment Project Five-Year Implementation Plan.

BACKGROUND

In 1993, the State Legislature passed into law AB 1290 requiring redevelopment agencies to adopt Implementation Plans that identified specific programs that would implement the Agency's Redevelopment Plan. The Implementation Plan is to be reviewed every two to three years and updated every five years. The Agency adopted its first Implementation Plan in August 2000, and did not update it in 2005 due to intensive activity at Vallco. It is now required to update the Plan to reflect current conditions and expenditure plans. The required elements of an Implementation Plan are:

- Identify specific goals and objectives for the next five years.
- Identify specific programs and projects planned for the five year period, including estimated expenditures.
- Provide an explanation of how the goals, objectives, programs and expenditures will eliminate blight.
- Provide an explanation of how programs will help the Agency meet its housing production goals.
- Provide an explanation of how the Agency's low and moderate income housing set-aside fund will be used to create or rehabilitate affordable housing.

The Implementation Plan charts a course over the next five years for continuing revitalization efforts within the Project Area, estimates capital project expenditures and tax increment revenues and generally outlines a blue print for the Agency Board and community as to how the Agency intends to proceed with redevelopment activities.

The Implementation Plan differs from the previous plan in that it contains a housing production plan, since housing is now anticipated in the project area. Affordable housing production is a requirement of the plan, as described in Section C. The Plan notes that the programs and strategies outlined in the document may vary over the next five years, since constraints an opportunities are not fully predictable.

The Implementation Plan was prepared by a consultant, Kirk Heinrichs, in conjunction with City staff. Mr. Heinrichs will attend the City Council meeting to discuss the Plan and answer questions.

DISCUSSION

Revenues, Programs and Projects

Tax increment revenues estimated over the five-year period are shown on Table 3. Gross tax increment revenues over the five-year period are estimated to be $5,296,941. Based on projected revenues, Tax Allocation Bonds (TABs) in the amount of approximately $10,000,000 may be issued in 2008/09 if there are sufficient tax increment revenues and if an investment grade bond rating can be achieved. For purposes of the Plan, it is assumed that bond proceeds will be available to finance programs and projects.

Expenditures for the five-year period are estimated at $14,940,105, including tax increment revenue and bond proceeds. Of the total, approximately $9,000,000 is expected to be used for public infrastructure, including parking facilities, road improvements, and utility improvements. Approximately $1,500,000 will be expended in debt service payments on the TABs. The Agency will set aside approximately $1,336,671 in its Housing Fund for facilitating affordable housing in the community and approximately $1,000,000 will be spent on economic development programs. The Agency is obligated to pass through to the tax entities who share in the property tax in the Project Area, such as school districts and public utilities, 25% of the Agency's net tax increment totaling approximately $1,336,671. And approximately $753,864 will be spent on Agency administrative costs, primarily supporting a full-time staff person who will manage the Redevelopment Agency activities as well as economic development duties.

The Plan is not an authorization to expend funds. Any expenditures would have to be authorized by the Redevelopment Agency in a separate action.

Housing

The Implementation Plan anticipates the production of 204 housing units over the life of the plan, which is the mixed-use "Rosebowl" development approved in 2004. Therefore, the Redevelopment Agency will have housing production requirements under California Redevelopment Law (CRL).

In addition to the CRL requirements, the Redevelopment Agency must satisfy terms of a settlement agreement with the Cupertino Citizens For Affordable Housing in resolution of a lawsuit brought about in connection with the adoption of the Redevelopment Plan in 2000. This Implementation Plan is in compliance with the provisions of that settlement agreement.

The settlement terms are as follows:

- The Agency must deposit 25% of its annual tax increment into the housing fund (rather than 20% as required under CRL).

- The Agency must spend 20% of the amount deposited into the Housing Fund (5% of total tax increment collected) to provide housing affordable to extremely low-income persons, who are persons with household incomes not exceeding 30% of area median income. (CRL does not have a requirement for extremely low-income households).

- The Agency must provide five affordable housing units (at specified affordability levels) for each 100,000 square feet of non-residential area added within the Project Area if financial assistance from the Agency has been provided (there is no comparable requirement in CRL).

- The Agency must satisfy specified requirements for leveraging the use of Housing Fund monies, providing affordable housing monitoring reports to the legal representative for the "Cupertino Citizens For Affordable Housing" group, and including certain provisions in agreements for the provision of affordable rental units.

The Plan identifies that 13 Very Low and 18 Very Low, Low and Moderate income units would be provided over the life of the Project Area (see Table 9). The law requires that 15% of the units provided must be affordable, and 6% of those units must be provided at Very Low income levels. The other 9% can be provided at any level including Very Low, Low and Moderate.

Enclosures:
Resolution
2006-2010 Implementation Plan

Prepared by: Ciddy Wordell, City Planner

Submitted by:	Approved by:
Steve Piasecki Director of Community Development	David W. Knapp City Manager

g:planning/redevelopment/citycouncilstaffreport implementation

DRAFT

RESOLUTION NO. 06-02

A RESOLUTION OF THE CITY OF CUPERTINO REDEVELOPMENT AGENCY APPROVING THE 2006-2010 IMPLEMENTATION PLAN

WHEREAS, the Cupertino City Council approved and adopted the Vallco Redevelopment Plan on August 21, 2000 for the Vallco Redevelopment Project Area (the "Project Area"); and

WHEREAS, in compliance with Health and Safety Code Section 33490, Redevelopment Agencies must conduct a public hearing on and adopt an implementation plan every five years identifying goals and objectives of the Agency.

WHEREAS, staff has presented to the Agency Board a proposed Implementation Plan, a copy of which is on file with the Agency Secretary; and

WHEREAS, on the date of this resolution, the Agency has conducted and concluded a duly noticed public hearing on the Implementation Plan in accordance with Health and Safety Code Section 33490; and

WHEREAS, the Agency finds that the Implementation Plan, with any modifications as considered and approved in connection with the public hearing, constitutes a statement of the Agency's goals and objectives for the Project Area, a summary of the specific programs and proposed expenditures proposed to be made by the Agency during the next five years, and an explanation of how the goals and objectives, projects, and expenditures will eliminate blight within the Project Area and implement the affordable housing regulations of the Community Redevelopment Law; and

WHEREAS, pursuant to Health and safety Code Section 33490, approval of the Implementation Plan does not constitute a project for purposes of the California Environmental Quality Act (CEQA), and therefore no environmental documentation is required pursuant to CEQA.

NOW, THEREFORE, BE IT RESOLVED, that the City of Cupertino Redevelopment Agency Board hereby approves and adopts the Implementation Plan for the Cupertino Vallco Redevelopment Project 2006-2010.

BE IT FURTHER RESOLVED, that this resolution shall take immediate effect from and after its passage.

Resolution No. 06-02

PASSED AND ADOPTED at a regular meeting of the Cupertino Redevelopment Agency this 6th day of December 2006, by the following vote:

Vote	Members of the Redevelopment Agency
AYES:	
NOES:	
ABSENT:	
ABSTAIN:	

APPROVED:

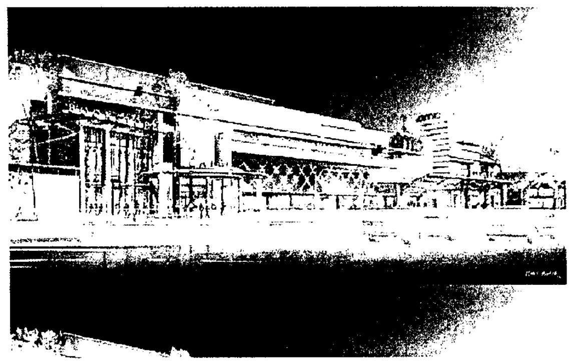
____
Chairman, Redevelopment Agency

ATTEST:

____
Secretary

B-6

CUPERTINO VALLCO REDEVELOPMENT PROJECT FIVE YEAR IMPLEMENTATION PLAN 2006 -2010



Vallco Fashion Park at Wolfe Road, prior to new construction and upon completion of the AMC Theater

Adopted , 2006

Prepared by
City of Cupertino Redevelopment Agency

B-7

TABLE OF CONTENTS

A. INTRODUCTION

Vallco Fashion Park Shopping Center opened in September 1976 and was considered one of the South Bay's premier shopping centers and one of the largest. By May of 2000, the number of shops had declined from 170 to 118. What had produced almost 25% of the City's total sales tax now produces only about 11%. The extent of tenant vacancies, the physical deterioration of the property, the outdated site plan and the significant decline in tax revenue resulted in physical and economic blight that was adversely affecting the image of Cupertino and its economic future. On August 21, 2000 the City of Cupertino Redevelopment Agency Board adopted the Cupertino Vallco Redevelopment Plan with its primary goal of facilitating the redevelopment, revitalization and rehabilitation of the Vallco Fashion Park Shopping Center back into a vibrant regional destination retail center through private development and public assistance with infrastructure and parking facilities.

Section 33490 of California Community Redevelopment Law ("CRL") requires that redevelopment agencies prepare an implementation plan every five years detailing the goals and objectives of the Agency detailing how it intends to implement its Redevelopment Plan during the five-year period. The implementation plan must contain the following information:

- Specific goals and objectives for the five-year period including potential capital projects and estimated expenditures planned during the period.
- An explanation of how the goals, objectives, programs, and expenditures will eliminate blight.
- A plan describing how to implement the use of Low and Moderate Income Housing Funds (the "Housing Fund") required to be set-aside under redevelopment law for use to create, rehabilitate, or preserve low and moderate income housing and meet the Agency's affordable housing production requirements.

In short, the Plan sets the direction the agency will take over a five-year period. It shall serve as a useful document and blueprint for the public in terms of understanding the programs the Agency intends to pursue. This document constitutes the five-year plan for the period of 2006 through 2010.

1. Interpretation

The Cupertino Vallco Redevelopment Agency Implementation Plan (the "Implementation Plan") is intended to provide general guidance for the implementation of the Agency's programs and activities. The Agency expects that particular constraints and opportunities, not fully predictable at this time, will arise in the course of undertaking the programs and activities described in this Implementation Plan over the next five years. Therefore, this Plan is intended to serve as a flexible guide for the Agency and the community with the understanding that the implementation of the programs and strategies outlined in this document may vary over the next five years in their precise timing, scope, cost and expenditure depending on the circumstances and available resources for implementing this Plan.

2. Project Area Description

The Project Area encompasses Vallco Fashion Park Shopping Center ("Vallco") and the adjacent Rose Bowl site, which is situated at Vallco Parkway and Wolfe Road (Figure 1). The Project Area is contained within a three block area bound by I-280 to the north, Stevens Creek Boulevard to the south and is intersected by Wolfe Road (the "Project Area"). Vallco is the largest shopping mall in the City with 1.13 million square feet of retail space. Anchor stores include JC Penney, Sears and Macy's.

Table 1
Summary of Vallco Cupertino Redevelopment Plan
Time and Fiscal Limits

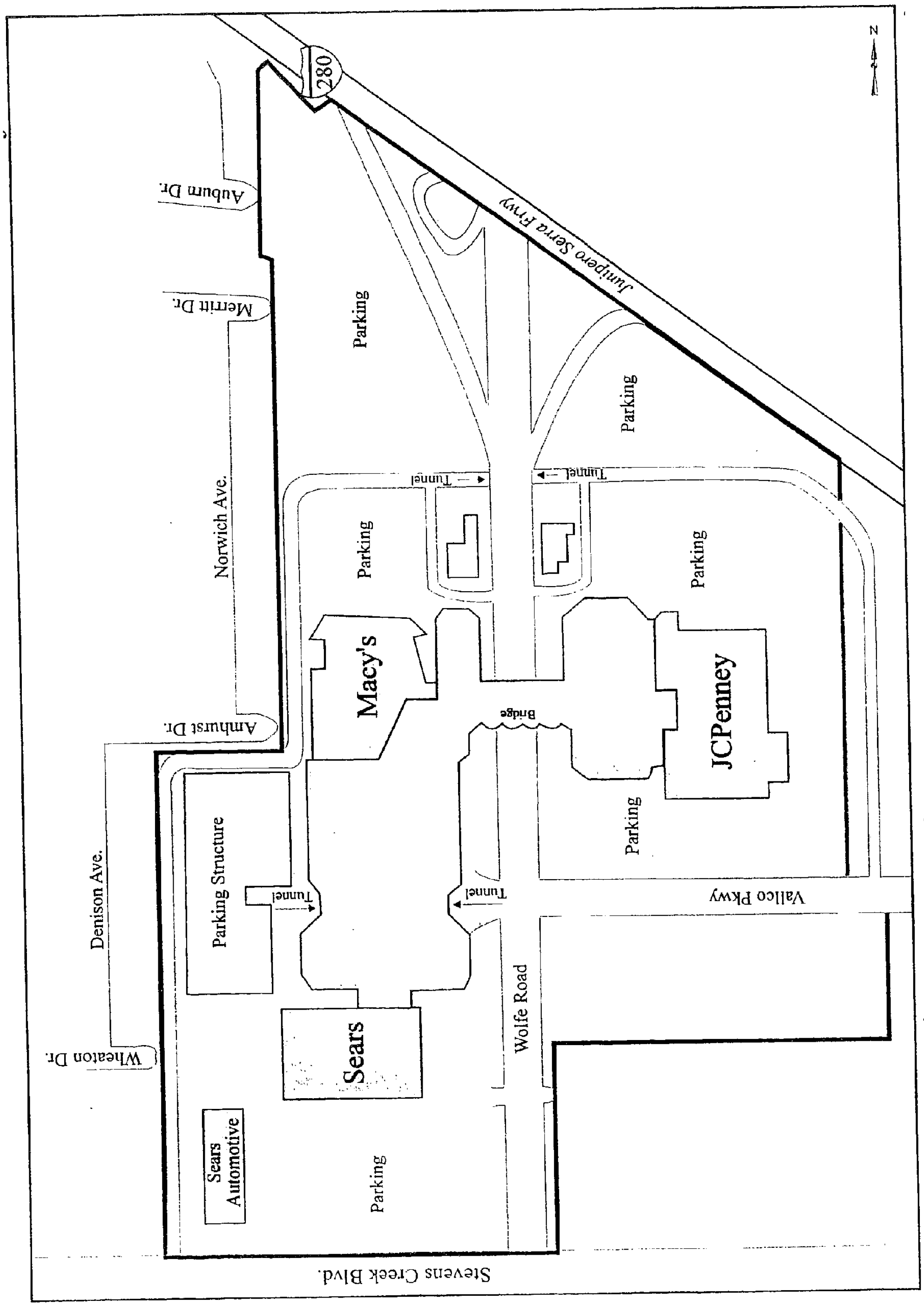
Total Acres	64
Date of Adoption	August 21, 2000
Time Limits	
Incurring Debt	August 21, 2020
Plan Effectiveness (Project Activities)	August 21, 2030
TI Collection/Repayment of Debt	August 21, 2045
Eminent Domain	August 21, 2012
Financial Limits	
Tax Increment Cap	None
Bond Limit	$42,610,000

3. Project Area Accomplishments

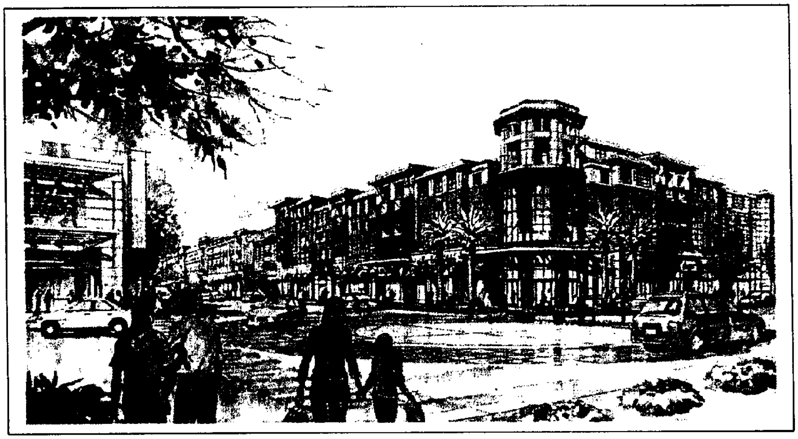
Under the 2000 Implementation Plan, the Agency contemplated issuing Tax Allocation Bonds to help finance infrastructure improvements including parking facilities. Due in part to the technology "dot com" bust, Silicon Valley experienced an economic recession, and commercial property values plummeted. Office vacancy rates were as high as 20% and vacancy at the Vallco Shopping Center was at 31%. As a result, during that period there was little to no tax increment revenue generated within the Project Area to support debt service for bonded indebtedness or any kind of meaningful redevelopment projects or programs. During that period the City worked with the owners of the Vallco Center to amend the 1991 Development Agreement between the City and the Vallco Shopping Center owners that resulted in the following:

a. Issued entitlements and building permit for the construction of a 16-screen cinema and new parking facilities scheduled to open by the end of 2006.

FIGURE 1
PROJECT AREA



b. Executed an amendment to the 1991 Development Agreement between the City of Cupertino and Vallco International Shopping Center, LLC on October 4, 2004 to allow 138,760 square feet of new retail space, 204 residential units and a new parking structure (see rendering below of Wolfe Road/Vallco Parkway intersection).



c. Executed an amendment to the 1991 Development Agreement between the City of Cupertino and Vallco International Shopping Center, LLC on October 18, 2005 to provide for a minimum 100-room hotel on the northeast portion of the Project Area.

d. Authorized the creation of a new position in the Community Development Department to be hired in 2006 to manage redevelopment and economic development activities.

4. Five Year Goals and Objectives

The programs and projects proposed in this Implementation Plan are intended to facilitate the achievement of the Agency's goals and objectives as stated in the Redevelopment Plan. The Agency's projects and programs fall under three main categories: infrastructure improvements, economic development programs and the facilitation of affordable housing in the community. The relationship between the goals and objectives and the proposed projects and programs within the Project Area are provided in Table 2.

Table 2
PROJECT AREA GOALS AND OBJECTIVES AND RELATED PROGRAMS
CUPERTINO VALLCO REDEVELOPMENT PROJECT

REDEVELOPMENT PROJECT GOALS & OBJECTIVE (As identified in the Redevelopment Plan)	REDEVELOPMENT PROJECTS AND PROGRAMS (2006-2010)		
	INFRASTRUCTURE IMPROVEMENTS (Parking structure, street improvements, other infrastructure & public improvements)	ECONOMIC DEVELOPMENT PROGRAMS[1] (Mall expansion, rehabilitation and tenant attraction)	LOW AND MODERATE INCOME HOUSING
Establish a planning and implementation framework to ensure proper redevelopment	X	X	
Eliminate and prevent the spread of blight and deterioration in accordance with the City's General Plan, specific plans, and local codes	X	X	
Plan, redesign, and redevelop underdeveloped or poorly developed areas that are underutilized or improperly utilized	X	X	
Strengthen the economic base by the redevelopment and rehabilitation of structures and the installation of needed site improvements	X	X	
Promote new private sector investment to facilitate the revitalization of an important commercial center		X	
Eliminate certain environmental deficiencies such as insufficient parking, public improvements, facilitates and utilities adversely affecting the Project Area	X		
Create and develop local job opportunities and preserve the existing employment base		X	
Provide improved housing for individuals/families of low-and moderate-income within City limits			X
Provide assistance to building owners in financing necessary renovations to meet current codes and standards		X	

1 May include a Business Attraction and Retention Program, a Storefront Rehabilitation Program and a Façade Enhancement Program.

B. SPECIFIC PROGRAMS, POTENTIAL PROJECTS AND ESTIMATED EXPENDITURES FOR THE NEXT FIVE YEARS

The Implementation Plan must provide specific programs, including potential projects and estimated expenditures for the next five years. Table 3 illustrates estimated revenues available during this Plan period. Based on projected revenues from new development within the Project Area, the Agency anticipates revenues being strong enough to issue approximately $10,000,000 in Tax Allocation Bonds (TABs) in 2008/09. At that time, the City and the Agency will evaluate the impacts of annual debt service payments on both the Agency and the City before committing to any long term debt obligations. For purposes of this Plan, it is assumed bond proceeds will be available for programs and projects. Listed in Table 4 are the programs planned by the Agency for the next five years, as well as the estimated expenditures and timing of the actions. The programs correspond specifically to the goals and objectives listed in Table 2. These projects are dependent on the assumptions in this Plan and market demand. Therefore, these programs and expenditures should be viewed as a guide to the direction of the Agency that may require some mid-course corrections. As required under redevelopment law, the Agency will review, and possibly amend the Plan within two to three years based on any changed conditions or economic circumstances.

Table 3
Projected Tax Increment 2006 -2010

	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY2009/10
Funds from Non-Housing Cash Balance	0	19,651	(47,426)	89,991	130,415
Tax Increment from Existing Assessed Value	185,677	212,002	216,242	627,385	1,968,085
Tax Increment from New Development	0	0	410,000	1,327,550	350,000
Less: County Admin Fee	849	969	3,244	9,411	29,521
Net Tax Increment to Agency	184,828	230,684	575,572	2,035,516	2,418,979
Less: Pass Through Payments	46,207	53,001	156,560	488,733	579,521
Less: ERAF	6,286				
Less: 25% Housing Set-Aside	46,419	53,001	156,560	488,733	579,521
Non-Housing Increment to Agency	85,916	124,683	262,452	1,058,050	1,259,937
City Debt Repaid					250,000
Less: Debt Service (Non-Housing Fund)				750,000	750,000
Less: Agency Admin (Non-Housing Fund)	66,265	167,438	172,461	177,635	182,964
Tax Increment Balance	**19,651**	**(42,756)**	**89,991**	**130,415**	**76,973**

Assumptions

1. 2% inflation factor for tax increment revenues
2. Accounts for new Redevelopment/Economic Development Position beginning in 06/07
3. New development in 07/08 is from new cineplex and parking structures
4. New development in 08/09 is from 204 residential units and 138,760 sqft of retail
5. New development in 09/10 from 137 from four-story hotel

1. Expenditures

Expenditures for the five-year period are estimated at $14,940,105 as set forth in Table 4. Of the total, approximately $9,000,000 is expected to be used for public infrastructure including parking facilities, road improvements, and utility improvements. Approximately $1,500,000 will be expended in debt service payments on the TABs. The Agency will set aside approximately $1,336,671 in its Housing Fund for facilitating affordable housing in the community and approximately $1,000,000 will be spent on economic development programs. The Agency is obligated to pass through to the tax entities who share in the property tax in the Project Area, such as school districts and public utilities, 25% of the Agency's net tax increment totaling approximately $1,336,671. And approximately $753,864 will be spent on Agency administrative costs primarily supporting a full-time staff person who will manage the Redevelopment Agency activities as well as economic development duties.

a. Infrastructure Improvements

In order to accommodate the additional retail traffic as a result of the proposed expansion and revitalization of the Vallco Mall, certain infrastructure improvements will be necessary. The Agency proposes the construction of parking facilities and roadway improvements within the next five years within the Project Area. The construction of parking facilities would serve both new as well as existing commercial uses within the Project Area. Roadway projects will include, but are not limited to, reconstruction of streets, expansion of utility infrastructure capacity, and streetscape improvements.

b. Economic Development Program

As part of on-going efforts to attract and retain businesses and jobs, and revitalize the commercial businesses within the Project Area, the Agency intends to implement an economic development program including a commercial facade enhancement program, a business attraction and recruitment program and a storefront rehabilitation program.

c. Low and Moderate Income Housing Programs

The Agency will implement several programs designed to ensure the utilization of the required 25% tax increment set-aside for the construction, rehabilitation and preservation of low-and moderate-income housing both within the Project Area and in Cupertino neighborhoods outside the Project Area. Specific programs may include the development of an affordable housing strategy, establishment of a first time homebuyer's program, and establishment of a home rehabilitation loan program.

Table 4
Estimated Agency Expenditures
2006 through 2010

Projects/Programs	2006	2007	2008 **2008**	2009	2010	5 year Total
Identified Public Projects	$0	$0	$0	$4,500,000	$4,500,000	$9,000,000
Discretionary Projects/Programs	$0	$0	$0	$500,000	$500,000	$1,000,000
Affordable Housing Programs	$46,419	$53,001	$156,560	$488,733	$627,833	$1,336,671
Public Agency Pass thru Payments	$46,419	$53,001	$156,560	$488,733	$627,833	$1,336,671
TA Bond Debt Service	$0	$0	$0	$750,000	$750,000	$1,500,000
Administration	$66,265	$167,438	$172,461	$177,635	$182,964	$766,763
Total Expenditures	$91,886	$261,463	$451,427	$6,803,459	$7,049,779	$14,940,105

2. How the Projects, Programs and Expenditures will eliminate blight

The goals, objectives, and programs established as part of the Redevelopment Plan are designed to alleviate blighting conditions in the Project Area. The elimination of blighting conditions will occur through the elimination of deficiencies in the infrastructure, the development of parking facilities, the facilitation of new development, and the rehabilitation of existing properties in the Project Area. The linkages between the programs and the blighting characteristics found are illustrated below in Table 5.

Table 5
Blight Conditions

BLIGHTING CONDITIONS	REDEVELOPMENT PROJECTS AND PROGRAMS (2006-2010)	
	INFRASTRUCTURE IMPROVEMENTS	ECONOMIC DEVELOPMENT PROGRAMS
Factors that effect the economic viability of buildings or lots (including substandard design, inadequate size and lack of parking)	X	X
Parcels of irregular form, shape and size under Multiple ownership	X	
Depreciated or stagnant property values	X	X
Low lease rates and high business turnover/vacancies	X	X

B-16

C. HOUSING ACTIVITIES

This section describes the Housing Component of the Implementation Plan for the Vallco Cupertino Project Area and summarizes the Agency's housing obligations pursuant to the legal requirements under California Redevelopment Law (CRL). These sections also provide an overall framework for the Agency's housing goals, policies, and programs. Under the Redevelopment Plan and the initial 2000 Five Year Implementation Plan period, no housing was contemplated in the Project Area. That situation has changed as approximately 204 housing units have been approved under amendments to the 1991 development agreement with the owners of the Vallco Shopping Center. Therefore, the Redevelopment Agency will have housing production requirements under CRL.

In addition to the CRL requirements, the Redevelopment Agency must satisfy terms of a settlement agreement with the Cupertino Citizens For Affordable Housing in resolution of a lawsuit brought about in connection with the adoption of the Redevelopment Plan in 2000. These requirements go beyond what CRL requires and this Implementation Plan is in compliance with the provisions of that settlement agreement. The settlement terms are as follows:

- The Agency must deposit 25% of its annual tax increment into the housing fund (rather than 20% as required under CRL).
- The Agency must spend 20% of the amount deposited into the Housing Fund (5% of total tax increment collected) to provide housing affordable to extremely low-income persons, who are persons with household incomes not exceeding 30% of area median income. (CRL does not have a requirement for extremely low-income households).
- The Agency must provide five affordable housing units (at specified affordability levels) for each 100,000 square feet of non-residential area added within the Project Area if financial assistance from the Agency has been provided (there is no comparable requirement in CRL).
- The Agency must satisfy specified requirements for leveraging the use of Housing Fund monies, providing affordable housing monitoring reports to the legal representative for the "Cupertino Citizens For Affordable Housing" group, and including certain provisions in agreements for the provision of affordable rental units.

1. Overview of Legal Requirements

The housing portion of the Implementation Plan is required to set forth specific goals and objectives for the five year planning period, outline specific programs and expenditures planned for the five years, and explain how the stated goals, objectives, programs, and expenditures will produce affordable housing units to meet these obligations. The CRL requires that an implementation plan include the following components:

- An explanation of how the goals, objectives, programs, and expenditures set forth in Implementation Plan will implement the housing requirements of the CRL, including a housing program for each of the five years of the Implementation Plan.
- The total number of housing units projected to be developed, rehabilitated, price-restricted, assisted, or destroyed for three time periods: (1) on an annual basis for the next five years, (2) in aggregate over a ten-year period, and (3) in aggregate for the remaining life of the redevelopment plan.
- Identification of proposed locations for replacement housing, which the Agency would be required to produce if a planned project would result in the destruction of existing affordable housing.
- Estimates of deposits into the Housing Fund during the next five years and the Agency's plans for utilizing those funds for affordable housing.
- A Housing Production Plan, per AB 315, and a determination as to whether housing production will meet the affordable inclusionary requirement.

2. Statutory Requirements for Housing

This section summarizes the major statutory requirements for affordable housing imposed on redevelopment agencies by the CRL and provides background information and analysis regarding affordable housing needs and conditions in the Project Area and overall community.

a. **Housing Production Requirement** – Specified minimum percentages of new or substantially rehabilitated housing units in a project area are to be made available at a specified affordable housing cost. This requirement applies to redevelopment plans which were either adopted, or which added territory by amendment, after 1976 (Section 33413).
b. **Housing Fund Requirement** – Redevelopment agencies are required to expend specified percentages of tax increment revenue for provision of affordable housing (Section 33334.2).
c. **Replacement Housing Requirement** – Agencies must replace, within four years, housing units removed from the housing stock as a result of redevelopment activities (Section 33413).

Under California Community Redevelopment Law, 15% of all the housing units constructed or substantially rehabilitated within a Redevelopment Project Area (the "Project Area") must be made affordable to low and moderate-income persons. Of the 15% requirement, at least 6% must be for very low-income persons (up to 50% of county median income) with the balance for moderate-income persons (up to 120% of county median income). This requirement must be met every 10 years, and a Redevelopment Agency must adopt an Affordable Housing Production Plan every ten years that indicates how the requirement will be met for the next decade and how it will be met over the life of the Redevelopment Plan. CRL requires a Redevelopment Agency to set aside at least 20% of its tax increment collected for the purposes of increasing, improving, and preserving the community's supply of low and moderate income housing. The Cupertino Redevelopment Agency has a greater responsibility to set -aside no less than 25% of its tax increment for affordable housing under the terms of the Settlement Agreement. Of that 25% set-aside, the Agency must earmark 5% for creating or preserving extremely low housing (housing for persons earning 30% of the County median income).

3. Targeting Housing Funds According to Need

Through requirements that became effective in January 2002, the Agency must target its Housing Fund expenditures to produce units affordable to very low, low, and moderate income households in at least the same proportion to the community's unmet need, using the regional fair share allocation as a benchmark to satisfy this requirement. This benchmark establishes ten-year "targeting compliance period" used to allocate Housing Fund expenditures distinct from the ten-year "production compliance period" in the AB 315 Plan used to guide the production of affordable housing. However, CRL legislation encourages agencies to synchronize these two ten-year compliance periods. Because the Cupertino Redevelopment Agency is under the further obligation of earmarking at least 20% of its housing set-aside funds for extremely low income persons, that percentage will be taken out of the funds available for moderate-income persons. Based on ABAG's "Fair Share" Regional Housing Needs Determination for the City of Cupertino, the table below indicates that at a minimum, the Agency must target at least 33% of its Housing Fund moneys to the production of very-low income units and at least 16% to low-income units. Additionally, under the terms of the Settlement Agreement, the Agency must earmark 20% of its Housing Fund monies for extremely low-income units. Combined, the Agency must provide 69% of its Housing Fund monies for extremely low, very low and low-income units.

Table 6
ABAG Regional Fair Share Allocations 1999-2006
City of Cupertino

Targeting Requirements by Income Level		
Income Level	**Total Housing Units Needed**	**Percentage**
Extremely Low (30% AMI)		20%
Very Low (50% AMI)	412	33%
Low (50-80% AMI)	198	16%
Moderate (80-120% AMI)	644	31%
Total	1254	100%

Recent law now requires that redevelopment agencies assist housing for persons regardless of age in at least the same proportion that the community's population under age 65 bears to the total population of the community. The table below describes the City of Cupertino's population as of the Census 2000:

Table 7
Housing Fund Expenditure Requirements
Non-Age Restricted Housing

Targeting Requirements by Age Group		
Population – City of Cupertino		
Age Group	**Number**	**Percent**
Under 65 years	44,986	81%
65+ years	5,560	11%
Total	50,546	100%

The table indicates that the Housing Fund money invested in senior housing should not exceed 11% of the total Housing Fund expenditures during the targeting compliance period. The law establishes a maximum allocation of funds according to a population's age distribution but does not, however, establish a minimum allocation of funds in this manner.

Housing assisted by Housing Fund moneys must be available to low and moderate - income families at an affordable housing cost in accordance with the CRL. For housing assisted by Housing Funds, the following affordable housing cost definitions apply:

Table 8
CRL Affordable Housing Cost Definitions

Income Level	**Rental Housing**		**Ownership Housing**	
	% Income Spent on Housing	**% of Area Median Income**	**% Income Spent on Housing**	**% of Area Median Income**
Extremely Low	30%	30%	30%	30%
Very Low	30%	50%	30%	50%
Low	30%	60%	30%	70%
Moderate	30%	110%	35%	110%

4. Duration of Affordability

The CRL requires that affordability covenants be recorded with respect to Housing Fund-assisted new and substantially rehabilitated housing units, replacement housing units, and project area production housing units. These affordability covenants must remain in effect for a minimum duration of 55 years for rental units and 45 years for owner-occupied units.

5. Replacement Housing Requirement

The Replacement Housing Requirement applies to project areas established by redevelopment plans (or areas added by amendments) adopted on or after January 1, 1976, and merged project areas regardless of the date of establishment of the individual project areas subsequently merged.

When residential units sheltering households earning at or below 120 percent of median income are destroyed or removed, or are no longer affordable due to agency action, an agency must replace within four years those units with an equal number of replacement units which have an equal or greater number of bedrooms. Since there are no residential dwelling units in the Project Area, there is no replacement housing requirement contemplated.

6. Ten Year Housing Production Plan

In satisfying the requirements of the AB 315 plan, this section will demonstrate how the City of Cupertino Redevelopment Agency will meet its housing production obligations established over the following time periods: (1) the historical life of the redevelopment plan, (2) the 10-year "2000-2010" production compliance period, and (3) production over the life of the redevelopment plan.

As required by the CRL, this document includes estimates of the number of new residential units within the Project Area and the number of affordable housing units, which will be developed in order to meet the requirements of the CRL. It is assumed that all of the housing units produced will be developed by entities other than the Agency.

The new affordable housing units created within the Redevelopment Project Area will create decent, safe and sanitary housing units for very low, low and moderate-income persons. All such units will be price restricted for the longest possible period, however, in no case less than the period of the land use restrictions of the Redevelopment Plan or the minimum periods required for use of Housing Fund monies as applicable. It is projected that there will be 204 units constructed in the Project Area during the 2006 to 2010 Implementation Plan period, during the ten year housing production period of 2000 to 2010, and over the life of the redevelopment project. Because the Project Area is predominantly a commercial district, it is not anticipated that any more residential units will be constructed in the Project Area over the life of the redevelopment project. Therefore, Table 9 illustrates the number of affordable housing units required over the life of the Project Area.

Table 9
Projected Housing Development
Cupertino Vallco Redevelopment Project Area

			Affordable Production	
Project	**Projected Completion Date**	**Total Units**	**Very Low**	**Very Low, Low, & Mod**
Rose Bowl	Spring 2008	204	13	18

7. Affordable Housing Production Requirement

Given the number of residential units projected within the redevelopment project area during the 2000 to 2010 housing production compliance period, the Agency has an obligation to ensure that 31 units are made affordable and at least 13 of those units are made affordable to very low-income households.

8. Housing Production through Affordability Covenants

Agencies may satisfy their inclusionary housing production obligation by purchasing or acquiring long-term affordability covenants on existing multifamily units that are presently affordable to low and moderate-income households or on currently affordable multifamily units that are not expected to remain affordable. This method cannot be used to satisfy more than 50% of units required to be affordable and not less than 50% must be affordable to very low-income households.

9. Housing Fund Revenues

Pursuant to CRL, the Agency is required to include in its Implementation Plan a report on the amount available in the Housing Fund and estimates of deposits in the Housing Fund during the next five-year period. At fiscal year end FY2004/05, there was a balance of $39,425. It is projected that the Agency will deposit approximately $1,336,671 (as illustrated in Table 4) into the Housing Fund during the period of 2005 to 2010 from tax increment revenues. These funds can be used both within and outside the Redevelopment Project Area.

10. Housing Programs

Policy 3-6 of the Housing Element of the General Plan identifies the Agency's Housing Fund as a source of revenue to be used to assist the City in creating affordable housing. Implementation Program #16 of the Housing Element requires that the Agency establish policies and objectives directing the expenditure of the housing funds for extremely low, very low, low and moderate-income housing. Over the next five years the Agency will work with the City to efficiently and effectively expend its Housing Fund revenues to create affordable housing consistent with the City's Housing Element. The Agency will consider the following housing programs in furtherance of those goals and objectives:

a. **First Time Homebuyer Program**

The Agency will consider establishing a First Time Homebuyer Program to help low and moderate income households achieve home ownership in Cupertino. This could be in the form of down payment assistance or second and third mortgages.

b. **Home Rehabilitation Program**

This is a program that offers low interest loans to low income and senior homeowners who cannot afford necessary health and safety repairs to their homes.

c. **Affordable Housing Incentive Program**

This is a program that could provide financial incentives to residential developers to provide a higher percentage of inclusionary housing than required by assisting with closing the affordability gap.

d. **Land Acquisition**

The Agency will evaluate the opportunities to partner with non-profit housing developers to acquire land and/or write down development costs to create affordable housing.

11. On-Going Monitoring of Residential Development and Housing Fund Expenditures

An important element for the Agency will be the ongoing monitoring of construction within the Project Area. This will be necessary to keep track of the new housing units produced and compare this to the number of units estimated, thus determining the number of affordable units required.

The ongoing monitoring is a relatively simple procedure for the Agency. This is a result of the small size of the Project Area, the limited amount of residential development; and the limited amount of new development taking place. More important will be the monitoring and tracking of housing fund expenditures. While the Agency may have limited responsibility in housing production due to the limited residential development within the Project Area, the Agency will be required to track housing fund expenditures to ensure it is satisfying both its CRL requirements as well as its obligations under the Settlement Agreement while assisting the City in meeting its housing production requirements over the life of the Redevelopment Agency.

G:planning/vallco/Vallco Redevelopment Plan REVISED 11-14-06

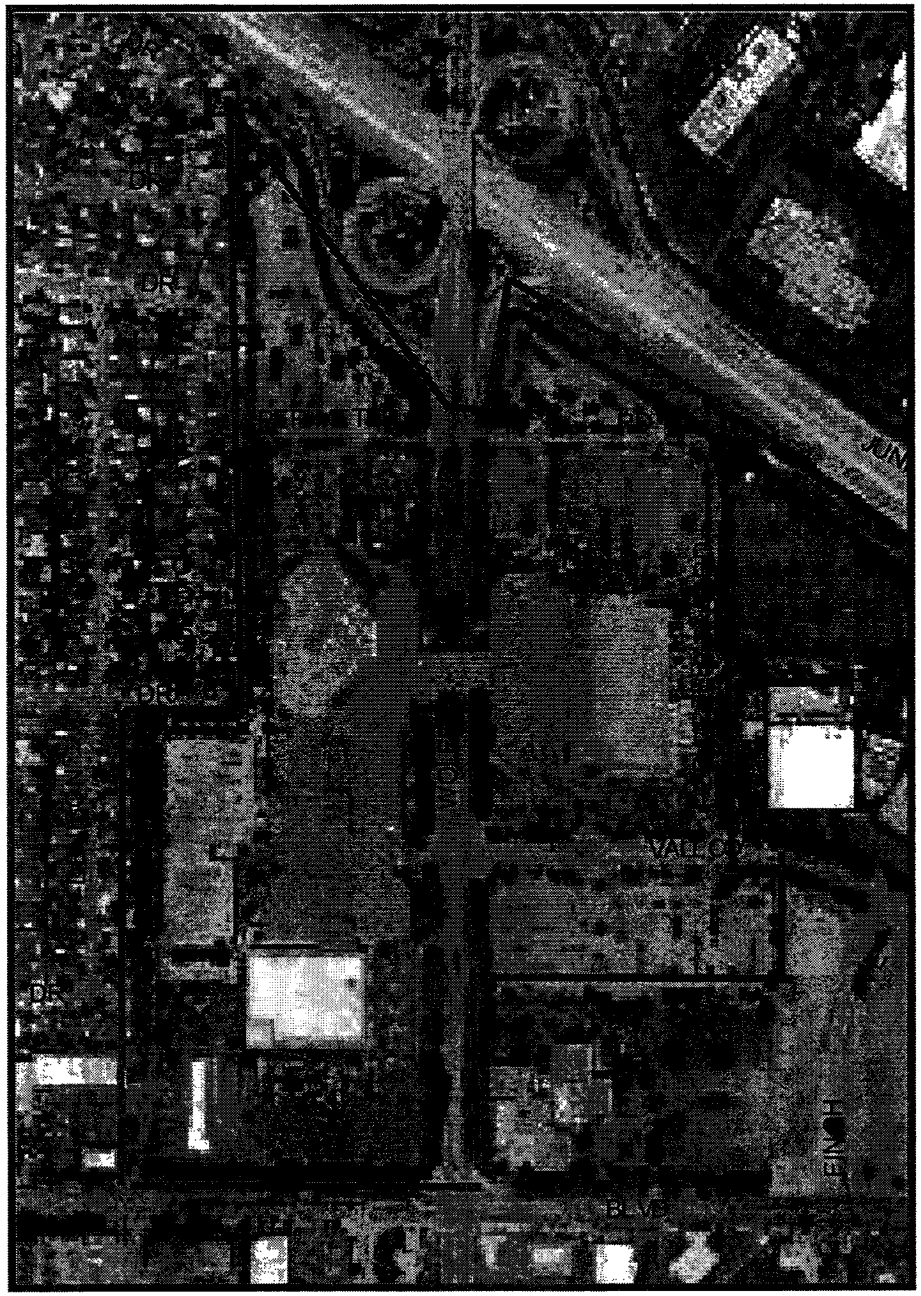
EXHIBITS
BEGIN
HERE

12/6/06 #B

Vallco Redevelopment Project

- Vallco Redevelopment Area adopted in August 2000
- New five-year Implementation Plan is required

Vallco Redevelopment Area



Five-Year Implementation Plan 2006-2010

- Identifies specific goals and objectives
- Identifies specific programs and projects, including expenditures
- Provides an explanation of how programs will help Agency meet its housing production goals
- Provides an explanation of how Agency's low and moderate income housing set-aside fund will be used to create or rehabilitate affordable housing

Vallco Redevelopment Projects

- Infrastructure Improvements
- Economic Development
- Low and Moderate Income Housing Programs

Vallco Redevelopment Project

- Revenues: $5,296,941
- $10,000,000 in Tax Allocation Bonds may be issued
- Expenditures: $14,940,105
  - $9M Public Infrastructure
  - $1.5M Debt Service
  - $1.336 Affordable Housing
  - $1M Economic Development
  - $1,336M Pass Through
  - $753,863 Administration

Projected Tax Increment 2006-2010

Non-housing Cash bal.	2005/06 0	2006/07 19,651	2007/08 (47,426)	2008/09 89,991	2009/10 130,415
Tax.Inc Ass. Val.	185,677	212,002	216,242	627,385	1,968,085
Tax.Inc. New Dev	0	0	410,000	1,327,550	350,000
Less Co. Fee	849	969	3,244	9,411	29,521
Net Tax Inc.	184,828	230,684	575,572	2,035,516	2,418,979
Less P/T	46,207	53,001	156,560	488,733	579,521
Less ERAF	6,286				
Less 25%	46,419	53,001	156,560	488,733	579,521
Non-hous	85,916	124,683	262,452	1,058,050	1,259,937
City Debt					250,000
Less Debt				750,000	750,000
Less Adm	66,265	167,438	172,461	177,635	182,964
T. I. BAL	19,651	(42,756)	89,991	130,415	76,973

Vallco Redevelopment Project

- Housing
  - 204 housing units (Rosebowl)
  - 25% of tax increments deposited in housing fund
  - 20% of amount deposited = extremely low-income persons
  - 5 affordable units for each 100,000 square feet of non-residential in Project Area if Agency provides $
  - Agency must leverage Housing Fund monies
  - 13 Very Low
    - 18 Very Low, Low and Moderate

Recommendation

- Adopt a resolution approving the 2006-2010 Cupertino Vallco Redevelopment Project Five-year Implementation Plan