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March 19, 2008

Ms. Cathy Creswell, Deputy Director
Department of Housing and Community Development
Division of Housing Policy Development
1800 Third Street, Room 430
Sacramento, CA 95814

RE: Annual Housing Element Progress Report
City of Capitola

Dear Ms. Creswell:

The City of Capitola is pleased to submit this Housing Element Progress Report for the period of January 1, 2007 through December 31, 2007.

The report shows that the City of Capitola has made good consistent progress in maintaining and expanding its affordable housing programs and in making the ordinance changes proposed in our Housing Element. Since the beginning of our Housing Element planning period in 2000 the City has been able to develop a net of six new very low-income housing units, two new low-income units, ten new moderate-income units and thirty-seven new above moderate-income units. The City currently maintains affordable housing opportunity sites for all income categories well in excess of the fair share numbers assigned to Capitola under the Regional Housing Needs Assessment (RHNA).

We look forward to your review. Please give me a call if you have any questions or need additional information.

Sincerely,

David Foster
Housing and Redevelopment Project Manager
(831) 475-7300 ext. 215

Attachment



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**CITY OF CAPITOLA
ANNUAL PROGRESS REPORT
ON HOUSING ELEMENT IMPLEMENTATION**

City Name: Capitola

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Reporting Period: January 1, 2007 to December 31, 2007



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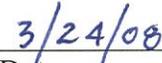
**Department of Housing and
Community Development
Annual Housing Element Progress Report**

CERTIFICATION OF ACCURACY

The undersigned in the capacity of Community Development Director on behalf of the City of Capitola has reviewed the information provided in the report contained herein, and certifies, to the best of her knowledge, that the information that has been provided herein is true and correct.



Juliana Rebagliati, AICP,
Community Development Director



Date

City of Capitola



HOUSING ELEMENT PROGRESS REPORT 2007

Prepared By:

City of Capitola
Community Development Department
420 Capitola Avenue
Capitola, CA 95010

2000-2007 Housing Element
Adopted by the Capitola
City Council
March 25, 2004

HOUSING ELEMENT PROGRESS REPORT For 2007

The Housing Element identifies and analyzes existing and projected housing needs and includes a statement of goals, policies, quantified objectives, financial resources, and scheduled programs for the preservation, improvement, and development of housing. The housing element is required to identify adequate sites for housing, including rental housing, and to make adequate provisions for the existing and projected needs of all economic segments of the community. California Government Code Section 65400 requires the City to file an annual report to its "legislative body", the State Office of Planning and Research (OPR), and the State Department of Housing and Community Development (HCD). The report is required to provide information on the status of the Housing Element and the City's progress in implementing its programs as well as its progress in meeting regional housing needs goals.

The City of Capitola adopted the 2000-2007 Housing Element Update on March 25, 2004 and the State Department of Housing and Community Development (HCD) found it to be in substantial compliance with the housing element law on May 7, 2004. A first annual report was submitted covering FY 03-04. Due to staff shortages and changes in 2005 our next report covered both FY 04-05 and FY 05-06. In March 2007 Capitola submitted an additional report covering the period from July 1, 2006 through December 31, 2006. This current report covers the period from January 1, 2007 through December 31, 2007.

Summary

This report shows that the City of Capitola has made good consistent progress in maintaining and expanding its affordable housing programs and in making the ordinance changes proposed in the Housing Element. Since the beginning of the Housing Element planning period the City has been able to develop a net of six new units of very low-income housing, two new units of low income housing, ten new units of moderate income housing and thirty-seven new units of above moderate-income housing. Although some of the affordable housing opportunity sites identified in the Housing Element have been developed for other than affordable housing purposed the City has been able to develop, or has plans to develop, affordable housing units on sites that were not identified in the Housing Element. The City currently maintains affordable housing opportunity sites for all income categories well in excess of the fair share numbers assigned to Capitola under the Regional Housing Needs Assessment (RHNA).

A. PROGRESS IN MEETING REGIONAL HOUSING NEEDS (RHNA GOALS)

The Association of Monterey Bay Area Governments (AMBAG) prepared a Regional Housing Needs Assessment (RHNA) to identify the housing needs for each jurisdiction within the AMBAG region. Through this process the City of Capitola was assigned the share of housing units that it should provide between the 2000-2007 planning period of the Current Updated Housing Element. To accommodate projected growth in the region, AMBAG estimates the City needs to target its housing unit production to accommodate 337 new housing units.

In accordance with California Code Section 65863 the City must “ensure that its inventory of adequate sites can accommodate its share of the regional housing need throughout the planning period of its Housing Element”. If the inventory of adequate sites is reduced during the planning period the City is obligated to identify sufficient additional adequate and available sites with an equal or greater residential density in the jurisdiction so that there is no net loss of residential unit capacity.

The attached Table I shows the original and updated available housing sites and the actual net number of units, by income category, that have been developed so far during the planning period. Some of the originally identified opportunity sites have been lost to other types of development and some new sites have now been identified for affordable housing development. The total RHNA goal calls for available sites for a total of 337 new units. With this annual report the City’s Housing Element maintains available sites to accommodate 505 to 586 new units.

Table II breaks down the housing units developed to date by income category and compares this with the RHNA goals. While Capitola has been able to maintain adequate sites for the development of housing units in all income categories the actual development of very low, low and moderate-income units has been very minimal.

Capitola is a nearly built-out community with few vacant lots available for new construction. As shown in Table III a number of the new units that have been constructed involved the demolition of existing units. Since 2000 a total of 108 units have been issued building permits but 53 of those units have involved the demolition of existing units. In 2007 we gained 7 new housing units but 7 existing units were demolished. All of the units produced in 2007 were for above moderate-income households. All of the unit counts and projections shown in Tables I and II only count the net new construction units that have been developed. New units that required the demolition of an existing unit are not counted toward meeting the RHNA goals unless the new units include new long-term affordability restrictions.

Very Low Income Sites

In the very low-income category the projected need is 82 units. Since the beginning of the program period in 2000 six units, developed by Habitat for Humanity, have been developed to serve this income group. One of the opportunity sites has been approved for other types of development but the Bay Avenue Senior Apartments rehabilitation and new construction project site has been added to the list. This new site will provide 13 new very low-income units. In addition, a portion of the units in that project scheduled to undergo substantial rehabilitation will provide for an additional 20 very low-income units. With this new site included the developed and projected available sites has been increased to 114-134 units. It should be noted, however, that all of our projected very low-income units are concentrated on only four sites (Redtree on Bay Ave., Dharma’s on Capitola Ave., the OW/OSH site on 38th Ave. and the newly included Bay Avenue Senior Apartments). Development proposals for these sites should be watched carefully to encourage the development of the proposed very low-income units and to assess the need to identify alternative sites if other than very low-income units are proposed for any of these sites.

Low-Income Sites

In the low-income category the projected need has been set at 41 units. Low-income units are in development on two new sites that were not included in the original Housing Element list. Two new 3-bedroom ownership units were completed and sold in December of 2006 as a part of the Wharf Road Manor Mobile Home Park project. An additional 8 substantial rehabilitation units proposed under the Bay Avenue Senior Apartments project will also be counted toward meeting the low-income housing goal. Some of the original sites have been lost to other types of development but the remaining sites and the two new sites combine to provide opportunity for 159-203 units. It should be noted that the low-income units projected have also been concentrated on three main sites (Newman Apts. on Park Ave., the OW/OSH site and the City owned McGregor site) and the anticipated development of income-restricted accessory dwelling units.

Moderate-Income Sites

A need for 63 units of moderate-income housing is identified in the Housing Element. To date a total of 2 units of moderate-income "inclusionary" housing units have been approved and 9 accessory dwelling units have been issued building permits. An additional 8 "inclusionary" condominium units are currently under construction and will be ready for occupancy by December of 2008. While some of the available sites identified in the Housing Element have been lost to other types of development potential sites remain available for at total of 113-130 units.

Accessory Dwelling Units (ADUs)

The City of Capitola approved an accessory dwelling unit ordinance in November 2003. The Housing Element anticipated that this new ordinance would allow for the development of 84 additional low and moderate-income units. Since the new ordinance has been approved, however, a total of only 9 units have been approved or built. Two issues need to be addressed in order for accessory dwelling units to realistically provide the affordable housing opportunities proposed in the Housing Element. The first item is that the current ordinance should be reviewed to see if there are restrictions that discourage development on otherwise available sites. Building setbacks, covered parking requirements and one-story height restrictions on detached units are examples of restrictions that should be reviewed. Allowing parking spaces to be located within the front yard setback is another modification that may be needed to make the construction of ADUs more viable.

Although it can be shown that accessory dwelling units without any rental restrictions will most likely serve moderate-income households, some additional incentives will need to be initiated before units will be developed as a part of the low-income housing stock. A fee waiver program is currently in place for ADUs that agree to rent to low-income households. This fee waiver may need to be combined with a below market financing or grant program, for example, to further encourage the development of units for lower income households.

Above Moderate-Income Sites

In the above moderate-income category the Housing Element projected a need for 151 units. Since 2000 a net increase of 37 new above moderate-income units have been issued use permits. This leaves a remaining need for 114 units and sites have been identified for 82 of those units.

New Construction verses Rehabilitation and Preservation

Because of the built-out nature of Capitola and because of the older age of much of its current housing stock the preservation and rehabilitation of existing homes must play an important part in the City's affordable housing strategy. We know from experience that the preservation of existing affordable housing units is much more cost effective than the development of new units for the same population. While the focus of the Housing Element's RHNA production goals are on the development of new units, there is the recognition that the preservation of existing units is also important. Under Section 65583.1 of the Government Code the City is allowed to substitute the provision of "existing" housing units with income restrictions for up to 25% of the City's low and very low-income RHNA obligation. Under limited circumstances Capitola may receive credit for existing units that have been: 1) substantially rehabilitated or that are replacing units that have been demolished, 2) units in multi-family complexes of 4 or more units that are converted from non-affordable to affordable, or 3) units that will be preserved at affordable housing costs for low and very low-income households, where the City has provided those units with committed assistance. The two low-income replacement-housing units that have been developed as a part of the Wharf Road Manor Mobile Home Park, as shown in Table I, count toward a portion of this 25% "existing" unit allocation. Once completed a portion of the 109 low and very low-income units being substantially rehabilitated as the Bay Avenue Senior Apartments Project (formerly known as the Silvercrest Apartments) will fill the balance of this 25% allowance for "existing" units. The substitution of "existing" units for "new" units can only be used in helping meet the City's obligation for low and very low-income units. It cannot be utilized for moderate-income or above moderate-income units.

Conclusion

While the attached tables show that Capitola is still able to provide adequate sites to meet its share of the regional housing need it should be pointed out that the remaining units to be developed are heavily dependent upon the development of a limited number of available sites. If additional development of these remaining affordable housing sites takes place in ways that do not address the City's housing obligation alternative sites may need to be identified in order to remain in compliance with the RHNA goals.

Low and very low-income units are dependent upon the active participation by the City to identify and preserve sites, recruit non-profit developers and collaborate in applications for state and federal funded programs. The HOME, CDBG and BEGIN programs as well as the HUD 202 and 811 programs are examples of funding sources that can help serve this income group. Multi-family rental projects and housing programs for people with special needs would be the types of units most likely to be built for this income group. Habitat for Humanity, with its self-help and volunteer construction program could also assist in the development of additional housing units for this income group if land costs can be covered through the City or other assistance.

Some moderate-income units are now being encouraged and developed through the City's new Inclusionary Housing Ordinance, our new Bonus Density Ordinance and our existing First Time Homebuyer loan program. The private market, however, is not developing moderate-income units in Capitola without the incentives and requirements of these

programs. The development of additional moderate-income units will be dependent upon the continued operation and expansion of these City programs. Other actions to encourage the development of moderate-income units could include revisions to the City's existing Accessory Dwelling Unit ordinance and the consideration of new ordinances to encourage the development of smaller square footage homes including Single-Room-Occupancy (SRO) rental units and Small Ownership Units (SOUs).

B. HOUSING PROGRAM IMPLEMENTATION STATUS

The 2000-2007 Housing Element Update included the Goals and Programs formulated on information provided in the Housing Needs Assessment and Constraints sections of the report and input from the City Council, Planning Commission and Housing Advisory Committee. The following is an update of the activities undertaken under each program during the January 1 through December 31, 2007 period of this report.

Goal 1: Maintain and Preserve the Character of the Existing Residential Neighborhoods

1.a. Capitola Housing Rehabilitation Program

This program is administered by the Housing Authority and is designed to address basic health and safety concerns. In the 04-05 year two loans and one emergency repair loan were approved. The \$50,000 allocated to the program for that year was expended. In the 05-06 year four loans were approved and the \$50,000 allocated to the program was expended. In 2006 and 2007 the program provided a total of 8 grants and loans for a total of \$123,600.

1.b. Code Enforcement

This is an ongoing effort by the City to bring substandard units into compliance with City codes. As part of the program, property owners are informed of the rehabilitation assistance available to correct health and safety related code violations.

Goal 2: Maintain Existing Affordable Housing Inventories

2.a. First Time Homebuyer program

The Housing Authority administers this program for the City of Capitola. The First Time Homebuyer program made two loans in 2003, no loans in 2004 or 2005, two loans in 2006 and one loan in 2007. This lack of activity is primarily due to the continuing climb in Capitola home prices for all types of homes, including mobile homes. However, with the introduction of the City's Inclusionary Housing Program it is anticipated that the First Time Homebuyer program will have an increasing role to play in assisting low and moderate-income homebuyers. The two loans provided in 2006, for example, were for the purchase of new Inclusionary housing units developed as a part of the cooperative conversion of the Wharf Road Manor Mobile Home Park. The Cooperative Park includes permanent affordability restrictions on all of its units as a condition of the financial assistance provided by the City Redevelopment Agency and the State MPROP program. The First Time Homebuyer program is funded from a variety of sources including the Redevelopment Agency's Low and Moderate Income Housing Fund, the City's HOME Reuse Fund, State BEGIN funds and the City's Affordable Housing Trust Fund. The First Time Homebuyer Loan program will become much more active during the 2008 year with

anticipated loans to 7 low-income households wishing to purchase Inclusionary lots in the recently subdivided Turner Lane Mobile Home Park and anticipated loans to low-income households wishing to purchase the 8 Inclusionary condominium units currently in construction as a part of the 55-unit Capitola Beach Villas project.

2.b. & c. Mobile Home Park Resident Acquisition Feasibility Study and Resident Acquisition Projects

CDBG and RDA funds were used in 2002 to complete feasibility studies on three of the City's nine mobile home parks. Two parks in the City have now been converted to resident controlled cooperatives and three parks have now been purchased by the residents and have been subdivided. The City would be supportive of cooperative or non-profit acquisitions of the three remaining privately owned parks in the City but no current negotiations are underway. The City purchased the ninth park, Pacific Cove, in 1985. A portion of the units in that park were removed in 1987 to allow for the development of a parking lot. The City is in the process of initiating a feasibility study to investigate the long-term options for the preservation of affordable housing for the current park residents.

2.d. Security Deposit Program

The Security Deposit Program offers income eligible individuals and families assistance to cover the costs of a security deposit for rental units. The Housing Authority administers this program for the City. Five residents received assistance under the program in 2006 and six residents received assistance in 2007 with grants totaling \$7,000.

2.e. Emergency Housing Assistance Program (EHAP)

This program is operated through a contract with the Community Action Board to provide emergency housing assistance to eligible applicants in the form of grants to prevent eviction or foreclosure. The Program provided assistance to a total of 61 households in 2007 for a total combined grant amount of \$63,593.

2.f. Section 8 Housing Vouchers.

This program is administered by the Housing Authority and is not funded or under the control of the City. The Housing Element Objective was to maintain 150 vouchers during the planning period. The Housing Authority currently provides 201 Section 8 vouchers for Capitola residents. Once these vouchers are awarded to a household the voucher moves with the household and they are not required to remain in the City of Capitola.

2.g. Rent Stabilization Ordinance for Mobile Home Parks.

This ordinance protects mobile home park residents from unreasonable increases in space rents. The City has continued to uphold the Rent Stabilization Ordinance against legal challenges. Only four parks in the City are rental parks covered by this ordinance. The City has now approved a Mobile Home Park Administrative Service Fee. This is a fee imposed on residents in parks that receive the benefit of the Rent Stabilization Ordinance. The purpose of the fee is to partially reimburse the city for expenses incurred by the city in administering, enforcing and defending the rent stabilization program.

2.h. Condominium Conversion Ordinance

This program was adopted and become effective as of 1979. To date very few condominium conversions have been completed since the ordinance was adopted as the ordinance is extremely restrictive.

Goal 3: Encourage New Affordable Housing Opportunities through Construction of New Units

3.a. Zoning Code Revisions

The City will undertake the following zoning code revisions in order to augment the number of sites for affordable housing in the City.

1. Amend the CC (Community Commercial) zoning district to allow residential and mixed-use development of commercial sites at a density of 25-30 units per acre.
2. Adopt an Accessory Dwelling Unit Ordinance that will permit second units on designated single-family lots of 5,000 square feet or greater. This ordinance was adopted and become effective in November of 2003. Since that time a total of nine ADUs have been developed. A review of the current ordinance is planned in the coming year to see if there are changes needed to the ordinance to encourage the development of additional units. Additional financial assistance may also be needed and to encourage the development of second units for low-income residents.
3. Adopt a density bonus ordinance consistent with State law. Recent projects (Capitola Beach Villas Condominiums on 41st Avenue and Bay Avenue Senior Apartments) have used the City's Planned Development zoning to address and permit density bonus requirements of state law. The density bonuses allowed on these two sites contributed to the development of affordable housing units. The City will prepare a specific Density Bonus Overlay Ordinance for consideration by the Planning Commission and City Council in the coming year.
4. Adopt an inclusionary ordinance that requires all new residential and mixed-use development of a certain size to provide a designated percentage of new units are rents/prices affordable to low and moderate income households. This ordinance was adopted in November of 2004 and amended in July 2005. Projects with seven or more for-sale housing units are required to reserve fifteen percent (15%) of the units for sale as affordable housing. Smaller projects and rental projects are required to pay in-lieu fees to the City's Affordable Housing Trust Fund. Under this program two for-sale inclusionary units have been developed and sold to moderate-income buyers. An additional eight inclusionary housing units are currently in construction as a part of the Capitola Beach Villas project on 41st Avenue and seven Inclusionary mobile home park lots are in the process of being sold to existing low-income park residents.

3.b. Affordable Housing Development Program

Under this program the City will coordinate with property owners, nonprofit housing developers, and others to facilitate development of housing affordable to low and moderate-income households.

The City has been heavily involved in the Bay Avenue Senior Apartments project which is a proposed acquisition, rehabilitation and new construction project. The project will include the acquisition of an existing 96 unit senior apartment complex and will involve major rehabilitation work and the construction of 13 additional units on the site. All of the 109 units on the completed project will be made permanently affordable to very low and extremely low-income seniors with 39 of the units to be set aside for chronically ill seniors. The project developer is First Community Housing. The Redevelopment Agency has provided the project with a predevelopment grant in the amount of \$114,430 and a Predevelopment loan in the amount of \$765,000. The City applied for and received a HOME grant from HCD in the amount of \$2,000,000 that will also be loaned to the project. Low Income Housing Tax Credits, a Multi-Family Housing Program loan and financing from CalHFA will complete the funding package for this \$28 million project. The project will be completed in phases with the start of construction planned for the summer of 2008.

The City of Capitola recognizes that the preservation of our existing housing stock is perhaps one of the most cost effective means of maintaining and creating additional affordable housing units.

3.c. Housing Trust Fund

A Housing Trust Fund has been established to be funded with any in-lieu fees collected under the City's new Inclusionary Housing Ordinance and to accept donations from individuals or organizations. The Trust Fund provides the appropriate mechanism for accumulating and administering additional housing resources including the possibility of seeking Trust Fund matching funds that have been made available from the State in recent years. The program currently holds a balance of approximately \$322,000. A portion of these funds will be used in 2008 to provide First Time Homebuyer loans to the Turner Lane Mobile Home Park residents who wish to purchase Inclusionary lots created as a part of the park's subdivision process.

Goal 4: Provide Housing Opportunities for People with Special Needs, specifically the Elderly and People with Disabilities.

4.a. Fair Housing

Fair housing information and legal assistance for eligible households and tenant-landlord dispute mediation are available from the Offices of California Rural Legal Assistance (CRLA) and the Office of Consumer Affairs in the county District Attorney's Office. CRLA was allocated \$3,505 in FY 05-06 and in FY 06-07.

4.b. Barrier-Free Housing

Through this program the City promotes implementation of State Standards for the provision of disabled accessible units in new developments, and provides no-cost technical assistance to prospective homeowners, contractors and developers regarding barrier free housing. This program also provides funding opportunities through the City rehabilitation programs to assist low and moderate income disabled residents modify their homes to improve accessibility. The City of Capitola also provides grant funds from its General Fund (approximately \$14,000 for both FY 05/06 and 06/07) to the

Central Coast Center for Independent Living (CCCIL). CCCIL provides independent living information and referral, advocacy, housing assistance, personal assistance services and peer support to persons with disabilities who live in the Counties of Santa Cruz, Monterey, and San Benito.

Goal 5: Encourage Siting and Design of Residential Development that Allows People to Live and Work in Capitola

5.a. Complete a comprehensive update of the zoning ordinance, including establishing shared parking provisions and reducing residential parking requirements

The City's parking standards were reduced by modification to the Ordinance adopted in 2004. In addition, parking requirements have been modified or reduced for higher density projects or income-restricted projects through the Planned Development zoning process.

5.b. Application of Affordable Housing Overlay (AHO) District

The City will prepare an Affordable Housing Overlay Ordinance for consideration by the Planning Commission and City Council in the coming year.

Goal 6: Encourage Sustainable Development

6.c. Review by Architectural and Site Review Committee

Continue to have projects reviewed by the Architectural and Site Review Committee for consistency with the water-efficient landscaping ordinance, compliance with building code and water district water conservation requirements, and for compatibility with transit and alternative transportation goals and policies. The City of Capitola has prepared a Green Building Ordinance which is currently in the process of being reviewed by the Planning Commission and City Council.

TABLE II					
City's Progress in Meeting its Share of the Regional Housing Needs Assessment During RHNA Period 2000-2007					
	Very Low	Low	Moderate	Above Moderate	Total
Projected Need	82	41	63	151	337
Total Units Permitted 1/2000 - 12/31/07	6	2	11	37	56
Remaining Need	76	39	52	114	281

TABLE III			
Total Number of New Additional Housing Units Permitted 2000- 2007			
Year	New Units	Demolished Units	Total Additional Units
2000	11	2	9
2001	31	5	26
2002	17	4	13
2003	2	2	0
2004	11	11	0
2005	8	11	-3
2006	21	11	10
2006	7	7	0
TOTAL	108	53	55

P:david/Housing Element/city construction chart for 2007HE report