

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jacky Morales-Ferrand  
Kim Walesh

**SUBJECT:** SEE BELOW

**DATE:** January 12, 2018

Approved

*D. D. SyL*

Date

*1/12/18*

## INFORMATION

**SUBJECT: UPDATE ON REGIONAL GRAND NEXUS STUDIES FOR  
COMMERCIAL IMPACT FEES USED TO FUND AFFORDABLE  
HOUSING**

## BACKGROUND

On November 18, 2014, the City Council adopted a resolution that established an Affordable Housing Impact Fee (AHIF) on new market-rate rental housing developments of three or more units in San José. A Commercial Impact Fee (also known as a Commercial Linkage Fee) is a type of development fee that offsets the marginal impact that new commercial development, such as offices, R&D facilities, manufacturing facilities, retail stores, hotels, warehouses, has in generating the need for affordable housing.

On June 23, 2015, Commercial Impact Fee (CIF) was added to the City Council Priority Setting Session. The item received six votes from the City Council and was ranked eighth out of 21 priority items.

On December 15, 2015, the Housing Department, Department of Planning, Building, and Code Enforcement (“PBCE”), and the Office of Economic Development (“OED”) provided the City Council a staff report regarding a Commercial Impact Fee Nexus Study and Feasibility Study, and options for studying the issue. Link to staff report:

[http://sanjose.granicus.com/Viewer.php?view\\_id=&event\\_id=1477&meta\\_id=547137](http://sanjose.granicus.com/Viewer.php?view_id=&event_id=1477&meta_id=547137)

There are two potential studies that can be part of determining the level of the fee:

- 1) A required CIF Nexus Study examines the legal connection, per the Mitigation Fee Act, between the development of new commercial development, the new workers employed in the space, and the resulting need for affordable housing. The study establishes the

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“Maximum Supported Fee” that may be collected to fund the development of new affordable housing.

- 2) An optional companion Feasibility Study is sometimes prepared to assess what level of fee could be absorbed by the market for different development types, given current commercial rent levels. The Feasibility Study can also examine the level of impact fees charged by neighboring cities and overall impact fees being charged on development to assess the feasibility of the fee.

The report provided the City Council with the following three options.

Option 1 - Issue an RFP, hire one or more consultants, and conduct a San Jose-specific Nexus Study and Feasibility Study.

Option 2 - Join the regional nexus study.

Option 3 - Do not study a CIF now, but revisit the issue at a future time.

The City Council directed the Housing Department to postpone undertaking a Nexus and Feasibility Study for a CIF to fund Affordable Housing. Concern centered around the widening jobs-housing imbalance within the region. The City Council did direct staff to "explore with the Silicon Valley Community Foundation (SVCF), SPUR, and other regional partners, and study how a regional fee structure or revenue-sharing might best address the need for affordable housing within the region.

In March 2017, in response to the December 15, 2015 City Council action, City staff recommended removing the CIF from the City Council Priority List. On March 3, 2017, Councilmember Donald Rocha issued a memorandum suggesting that the City Council, in keeping with the December 15, 2015, direction, postpone the study, rather than remove the CIF from the Priority List. This memorandum recommended that City Council reconsider a potential CIF following the completion of deliberations by the Santa Clara County jurisdictions who participated in a regional study sponsored by the SVCF.

On March 7, 2017, the City Council held a Priority Setting Session to add items to the Priority List and rank those items in priority order. The City Council declined removal of the CIF from the Priorities List and instead moved to accept Councilmember Rocha's memorandum. The City Council also included to keep the direction to explore regional partnerships and to study how a regional fee structure or revenue-sharing might best address the need for affordable housing.

On October 17, 2017, City Council held a Priority Setting Session to add items to the Priority List and rank those items in priority order. The CIF for Affordable Housing was listed as #12 on the Final Ranked Council Priority List.

***Multi-Jurisdiction Housing Nexus Studies***

Taking into account that affordable housing is a critical issue for the greater region, many jurisdictions have undertaken efforts to research the need and potential benefit of a CIF by partnering to conduct regional Nexus Studies. These regional Nexus Studies aim to:

- Provide tools for developing local solutions to housing needs;
- Strengthen cooperation between jurisdictions;
- Promote regional approaches to addressing land use issues;
- Achieve efficiencies in contracting, cost, and time involved in analyzing both commercial and residential impact fees;
- Provide a more consistent and equitable approach to the issue across cities; and
- Generate more funding for affordable housing.

Recent regional collaborations include the San Mateo County’s *Grand Nexus Study 1.0* and the *Grand Nexus Study 2.0*, sponsored by the SVCF. Although the grand nexus studies examined both residential and commercial impact fees, this memorandum is focused exclusively on the results of the CIF studies.

Grand Nexus Study 1.0 – San Mateo County

Beginning in 2014, San Mateo County jurisdictions undertook a unique collaboration by pooling their resources and jointly conducting a County-wide Nexus Study. The collection of data and tools is known as the “21 Elements,” or the *Grand Nexus Study 1.0*.

<b>JURISDICTIONS PARTICIPATING IN GRAND NEXUS STUDY 1.0</b>			
<b>San Mateo County</b>			
Belmont	East Palo Alto	Pacifica	San Carlos
Brisbane	Foster City	Palo Alto*	San Mateo
Burlingame	Menlo Park	Redwood City	South San Francisco
Colma	Millbrae	San Bruno	San Mateo County

\* Palo Alto is a part of Santa Clara County but joined the San Mateo County Grand Nexus Study

Grand Nexus Study 2.0 – Santa Clara and Alameda Counties

Based on the approach piloted with the Grand Nexus Study 1.0, the SVCF sponsored and subsidized the study of a regional CIF structure to address the need for affordable housing within the context of the widening jobs-housing imbalance within the Region. In 2015, Keyser Marston Associates (KMA) was selected as the consultant based on their experience conducting both commercial and housing impact fee studies.

The following cities in Alameda and Santa Clara Counties participated in the *Grand Nexus Study 2.0*:

<b>JURISDICTIONS PARTICIPATING IN GRAND NEXUS STUDY 2.0</b>			
<b>Alameda County</b>		<b>Santa Clara County</b>	
Alameda County	Hayward	Campbell	Santa Clara
Albany	San Leandro	Los Altos	Santa Clara County
Fremont	Union City	Milpitas	Saratoga

This memorandum provides an update on the jurisdictions that have completed their deliberations on Impact Fees as a revenue source for affordable housing.

**ANALYSIS**

A CIF is a type of development fee that offsets the impact that new commercial development (such as offices, R&D facilities, manufacturing facilities, retail stores, hotels, and warehouses) has on the need for new affordable housing. The lack of affordable housing has been cited as an issue in cities throughout the region comprised of Santa Clara, San Mateo, Alameda, and San Francisco Counties (“Region”). This has lead many municipalities to adopt CIFs and participate in studies and efforts to identify regional solutions.

Status of the Grand Nexus Study 2.0 – Santa Clara and Alameda Counties

Since the completion of the Grand Nexus Study 2.0 in 2017 two jurisdictions in Santa Clara County (Palo Alto and the City of Santa Clara) have established a CIF. The City of Santa Clara most recently took action on December 5, 2017. In addition, three jurisdictions (Los Altos, Milpitas, and County of Santa Clara) are still considering CIFs, with potential actions in 2018. Saratoga and Campbell decided not to pursue a CIF. Likewise, one jurisdiction in Alameda County (Fremont) established a CIF, and three jurisdictions (County of Alameda, Albany, and San Leandro) are still considering CIFs, with potential actions in 2018.

By comparison, 11 jurisdictions that participated in Grand Nexus Study 1.0, which initiated a year earlier, have established CIFs, including Belmont, Burlingame, Colma, East Palo Alto, Foster City, Menlo Park, Redwood City, San Bruno, San Carlos, City of San Mateo, and County of San Mateo. In addition, two jurisdictions (Brisbane and Millbrae) are still pursuing CIFs, but have not yet scheduled action.

***Summary Chart of Commercial Impact Fees***

Adopted Fees: A list of all the jurisdictions throughout the region that have adopted a CIF to increase affordable housing opportunities is provided in this document as Table 1. As indicated, these CIF’s vary based on the different categories of commercial development.

**Table 1**

<b>ADOPTED COMMERCIAL IMPACT FEES</b>					
<i>COUNTY</i>	<i>JURISDICTION</i>	<i>OFFICE \$/SF</i>	<i>RETAIL \$/SF</i>	<i>HOTEL \$/SF</i>	<i>INDUSTRIAL \$/SF</i>
<b>SANTA CLARA</b>	Cupertino	\$21.35	\$10.68	\$10.68	\$21.25
	Mountain View	\$25.58*	\$2.74**	\$2.74**	\$25.58*
	Palo Alto	\$35.00	\$20.37	\$20.37	N/A
	Santa Clara***	\$3.33 - 6.67	\$0 - 1.67	\$1.67	\$1.67 - 3.33
	Sunnyvale	\$8 - 16****	\$8.00	\$8.00	\$8 - 16****
<b>SAN MATEO</b>	Belmont	\$12.00	\$5.00	\$4.00	\$12.00
	Burlingame	\$18 - 25	\$7.00	\$14.00	N/A
	Colma	\$5.00	\$5.00	\$5.00	N/A
	East Palo Alto	\$10.00	N/A	N/A	N/A
	Foster City	\$27.50	\$6.25	\$12.50	N/A
	Menlo Park	\$16.15	\$8.76	\$8.76	N/A
	Redwood City	\$20.00	\$5.00	\$5.00	N/A
	San Bruno	\$12.50	\$6.25	\$12.50	N/A
	San Carlos	\$20.00	\$5.00	\$10.00	N/A
	San Mateo	\$25.00	\$5.00	\$10.00	N/A
San Mateo County	\$25.00	\$5.00	\$10.00	N/A	
<b>ALAMEDA</b>	Alameda (City)	\$5.00	\$2.00	\$2.00	\$1.00
	Berkeley	\$5.00	\$5.00	\$5.00	\$2.00
	Dublin	\$1.00	\$1.00	\$0.43	\$0.49
	Emeryville	\$4.00	\$4.00	\$4.00	\$4.00
	Fremont*****	\$4.00	\$4.00	\$4.00	\$1.00
	Livermore	\$1.00	\$1.00	\$1.00	\$0.24
	Newark	\$4.00	\$4.00	\$4.00	\$1.00
	Oakland	\$5.24	N/A	N/A	N/A
	Pleasanton	\$3.00	\$3.00	\$3.00	\$3.00
<b>SAN FRANCISCO</b>	San Francisco	\$24.41	\$22.96	\$18.42	NA

\* Mountain View has two tiers. \$12.79 for the first 10k sq ft, and \$25.58 for over 10k sq ft

\*\* Mountain View has two tiers. \$1.37 for the first 25k sq ft, and \$2.74 for over 25k sq ft

\*\*\* Santa Clara has a range depending on square footage.

\*\*\*\* Sunnyvale: First 25k net new sq ft charged \$8, then \$16 for remaining net new sq ft

\*\*\*\*\* Fremont: These initial fees are effective January 1, 2018, but will rise each year thereafter

A map of jurisdictions with adopted CIFs and/or completed Nexus Studies is provide as **Attachment B**.

Status of the Jobs: Employed Residents Ratio and Commercial Development

Table 2 *Comparison of Jobs and Commercial Development* provides current information on the jobs-housing balance for Santa Clara County cities, and growth rates of jobs and commercial development. San Jose has the lowest jobs-to-employed residents ratio and slowest rate of job growth and commercial development.

**Table 2**

<b>COMPARISON OF JOBS AND COMMERCIAL DEVELOPMENT</b>					
<b>JURISDICTION</b>	<b>JOBS TO EMPLOYED RESIDENTS RATIO (2016)</b>	<b>TOTAL JOB GROWTH (2010-2016)*</b>	<b>ANNUAL JOB GROWTH (2010-2016)</b>	<b>NET CHANGE IN OFFICE/R&amp;D SPACE (2008-2017)****</b>	<b>NEW OFFICE/R&amp;D SF PER RESIDENT (2008-2017)****</b>
Cupertino	1.5	33%	5%	21%	60
Mountain View	1.7	33%	5%	11%	34
Palo Alto	2.8	19%	3%	6%	21
Santa Clara	1.7	13%	2%	11%	43
Sunnyvale	1.2	15%	2%	22%	57
<b>LOCAL JURISDICTIONS CONSIDERING COMMERCIAL IMPACT FEES</b>					
Los Altos	1	29%	4%	-	-
Milpitas	1.2	18%	3%	-12%	1
San Jose	0.8	6%	1%	2%	4

Sources:

\*US Census Bureau American Community Survey 5-Year Estimates

\*\*California Employee Development Department Labor Market Information 2016 Annual Averages

\*\*\*Cushman and Wakefield Quarterly Reports and 2017 CoStar data; development data as of Q3 2017

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*Next Steps*

The Housing Department anticipates that Milpitas will take action on a proposed CIF in 2018. Once their action is completed, staff will return to the City Council with a final report on the results of the Grand Nexus Study 2.0 for further direction.

/s/

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/s/

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Director of Economic Development

For questions, please contact Patrick Heisinger, Division Manager, at (408) 975-2647.

Attachment A – Regional Map of Cities and Counties with CIFs and/or Nexus Studies

# ATTACHMENT A

## Regional Map of Cities and Counties with CIFs and/or Nexus Studies

