

**ATTACHMENT B-3.1  
INCLUSIONARY HOUSING ORDINANCE (IHO) COMPLIANCE OPTIONS:  
ILLUSTRATIVE CALCULATION OF THE RENTAL IN-LIEU FEE  
COMPLIANCE OPTION FOR FY2019-2020  
(RENTAL)**

This attachment to the Guidelines provides more information on how calculating the Rental In-Lieu Fee compliance option and illustrates the calculations involved in that process. The figures below reflect the In-Lieu Fee effective July 1, 2019 to June 30, 2020. Definitions for capitalized terms may be found in the Guidelines and the Ordinance.

**I. Calculation of the Rental In-Lieu Fee (SJMC Section 5.08.520)**

The In-Lieu Fee for each Rental Inclusionary Unit is based upon the average City subsidy required for new construction of a rental residential unit at an Affordable Housing Cost for a Lower Income Household.

In the event that there are fewer than three (3) city-subsidized rental affordable housing new construction projects within any twelve (12) month reporting period, the ordinance requires the rental In-Lieu Fee to be updated annually using the change in the Northern California Real Estate Construction Report published by the Real Estate Research Council of Southern California at California State Polytechnic University, Pomona. The In-Lieu Fee shall be adjusted based upon the percentage difference in the current completed year new home prices in Santa Clara County from the immediately preceding year as published in the Northern California Real Estate Construction Report.

**II. Calculation of the Rental In-Lieu Fee (SJMC Section 5.08.520)**

During the 2018 calendar year, only two rental projects were subsidized by the City of San Jose (as shown below):

**Calculation of the Rental In-Lieu Fee Compliance Option**

<b>Closing Date</b>	<b>Project</b>	<b>City Subsidy</b>	<b># of Units</b>	<b>City Subsidy per Unit</b>
12/10/2018	Leigh Ave	\$9,000,000	64	\$140,625
3/5/2018	Villas on the Park	\$8,001,720	84	\$95,259

**III. Alternative In-Lieu Fee Calculation**

Due to this limited number of City-subsidized rental projects, the alternative method for calculating the Rental In-Lieu fee for FY19-20 will be used. Note: The City of San José received a copy of the Northern California Real Estate Construction Report – 2018 Fourth Quarter on March 5, 2019. The calculation functions as follows:

IHO Guidelines – Attachment B-3.1: Rental In-Lieu Fee Calculation

New Home Prices for Santa Clara County 2018:	\$1,014,571
	-
New Home Prices for Santa Clara County 2017:	<u>\$892,552</u>
	=
Difference:	\$122,019
	÷
Then divide this difference by the 2017 figure:	<u>\$892,552</u>
	=
To determine the % difference of the current year and preceding year:	14%
Then multiply the FY18-19 In-Lieu Fee by 100% + this percentage:	\$158,343 <sup>1</sup>
	X
	114%
	=
In-lieu fee per unit:	<b>\$180,511</b>

**IV. In-Lieu Fee Additional Charges**

The Ordinance also allows the Housing Department to collect an administrative fee to account for the estimated costs of administration. This administrative fee may be levied as part of the In-Lieu Fee or as a separate charge. In addition, the in-lieu fee can account for the estimated cost of increases in the price of housing and construction between payment and the acquisition of land and construction of units.

For FY 2019-20, the Housing Department will collect an administrative fee in the form of an application fee of \$3,119. Therefore, the In-Lieu Fee described in this document does not currently include an administrative fee in the calculation.

**V. Proposed In-Lieu Fee for FY19-20**

On December 19, 2017, the San José City Council adopted a resolution amending the 2017-18 City of San José Schedule of Fees and Charges to establish an In-Lieu Fee of \$125,000 per unit for rental development (based on the Housing Department’s unit subsidy for the most recent funding commitments) subject to the Inclusionary Housing Ordinance Program effective January 1, 2018.

The figure of \$125,000 reflects the average City subsidy per the Housing Department’s most recent funding commitments for uncompleted projects. **Per the staff recommendation**, the Rental In-Lieu Fee will continue to be at \$125,000 per inclusionary unit (20% of the total number of residential units) to provide some certainty to rental residential developments in the pipeline.

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<sup>1</sup> The FY18-19 In-Lieu Fee was originally calculated to be \$158,343, but was adjusted to \$125,000 by the City Council.

IHO Guidelines – Attachment B-3.1: Rental In-Lieu Fee Calculation

Please see the calculation below using an example 100-unit Residential Development project:

Total Number of Residential Units:	100
	x
Multiplied by 20%:	<u>20%</u>
	=
Units required to pay In-Lieu fee:	20
	x
In-Lieu fee per unit:	<u>\$ 125,000</u>
In-Lieu fee for a 100-unit Residential Development:	<b>\$ 2,500,000</b>