

**TO: Envision San José 2040
4-Year Review Task Force**

FROM: Jared Hart

**SUBJECT: January 30, 2020
TASK FORCE MEETING**

DATE: January 23, 2020

This memo provides information to assist you in preparation for the January 30, 2020 Envision San José 2040 Task Force meeting. Links to the referenced documents and other resource materials (e.g., reading materials and correspondence) are posted on the Envision San José 2040 4-Year Review website (<http://www.sanjoseca.gov/generalplanreview>).

The following is a summary of agenda items for the January 30, 2020 Task Force meeting:

Agenda Item 2 – Task Force Recommendation on Urban Village Horizons

Task Force members will vote on the Urban Village Horizons staff recommendation.

At the November 20, 2019 Task Force meeting, City staff recommended shifting the Five Wounds BART (VT3) and S. 24th St./William Ct. (V57) Urban Villages to Horizon 1 and no wholesale citywide shift to Horizon 2. Staff recommended shifting these villages into Horizon 1 to anticipate potential growth as part of the BART Phase II Extension into San José. As part of this discussion, several Task Force members expressed that they would like to see horizons eliminated to allow residential development to move forward without phasing. The Overview Memo for the December 18, 2019 Task Force Meeting provides information on the function of Horizons in the context of the General Plan and an analysis of the outcome if Horizons were eliminated. (<https://www.sanjoseca.gov/home/showdocument?id=47777>)

Regardless of the development phasing intention of horizons, a strategy is needed to provide general direction to City staff for where to prioritize preparation of Urban Village plans. If Horizons were to be eliminated, staff recommends using Policy IP-2.10 to guide City staff workload and prioritization for Urban Village planning efforts with some minor revisions that prioritize areas with market demand while removing any reference to horizons. Policy IP-2.10 states that development should occur in areas proximate to Downtown, with access to existing and planned transit facilities, and adequate infrastructure to support intensification, and proximate to other Growth Areas to contribute to the City's urban form. The prioritization of Urban Village planning processes so far have generally followed this policy that prioritizes Urban Villages near Downtown and transit stations first. Areas with high market demand for development not near Downtown or transit stations, such as Urban Villages in West San José, should also be prioritized because projects would likely move forward sooner in areas with high market demand, and a planning document is crucial to guide development and ensure that projects meet the community's vision for the future.

Staff Recommendation

Per the original recommendation, staff does not recommend a move to Horizon 2 but recommends shifting the Five Wounds BART (currently Horizon 2) and S. 24th St./William Ct. (currently Horizon 3) to Horizon 1.

However, if the Task Force recommends elimination of Urban Village Horizons, staff recommends revising Policy IP-2.10 to reflect prioritizing Urban Village planning processes based generally on areas proximate to Downtown, areas with access to existing and planned transit facilities and adequate infrastructure to support intensification, areas proximate to other Growth Areas to contribute to the City's urban form, and market demand as such:

“Prioritize the preparation of Urban Village plans to give priority for new residential growth to occur in areas proximate to Downtown, with access to existing and planned transit facilities, and adequate infrastructure to support intensification, and proximate to other Growth Areas to contribute to the City's urban form. Growth Areas with high market demand shall also be prioritized to ensure that development follows the community's vision for the future.”

See Attachment A for detailed strikethrough/underline changes to all staff policy recommendations.

Agenda Item 3a – Signature Project Policy & Changes to Policy IP-5.12

Staff will present recommendations on the Signature Project Policy based on feedback from the Task Force. Staff will also present recommendations on changes to General Plan Policy IP-5.12 associated with Four-Year Review scope of work items to consider allowing mixed-income housing with a significant percentage restricted affordable homes to proceed ahead of an approved Urban Village plan and Horizon, and to explore changes to commercial space requirements for affordable housing projects. Both the Signature Project Policy and Policy IP-5.12 discuss development of mixed and affordable housing ahead of an approved Urban Village plan and Horizon and should be discussed together.

Task Force members will be given an opportunity to discuss, provide input, and ask questions about staff recommendations on changes to the Signature Project Policy and General Plan Policy IP-5.12. Members of the community will be provided with an opportunity to address the Task Force. Task Force members will then vote on staff recommended changes to the Signature Project Policy and General Plan Policy IP-5.12.

Signature Project Policy

At the December 18, 2019 Task Force meeting, the Task Force voted to recommend staff's recommendation with the following amendments:

- Signature Projects would only need to provide their “fair share” of commercial space rather than the “above fair share” that staff recommended

- Site selection for a Signature Project would be revised to a 1.5-acre minimum size and a minimum of 100-foot street frontage for an interior parcel rather than the 3-acre minimum and 150-foot street frontage that staff recommended

The Task Force also asked staff to consider more robust requirements for community engagement and to explore an incentive, or reduction in required commercial space for Signature Projects that include on-site affordable housing.

Staff was also asked to analyze the Signature Project interior parcel site selection criteria amendment. Reducing the interior parcel site selection criteria to 1.5 acres and 100-foot frontage would only have marginal significance in increasing the number of sites that would be eligible for Signature Projects. A majority of the potential sites for Signature Projects would be corner parcels. Reducing the interior parcel requirements would only make 23 more sites (6%) available for Signature Projects. As Signature Projects are a way to allow residential growth on commercially designated land ahead of an approved plan and Horizon, Table 1 only shows a comparison of the scenarios which analyzes commercially designated parcels¹ within Urban Villages. Residential projects may move forward on residential designated land without a Signature Project at any time, ahead of an approved Urban Village plan or Horizon, and are not included in Table 1.

Table 1: Comparison of Proposed Site Selection Requirement Changes

	Corner Parcels	Interior Parcels	Total Parcels
Original Staff Recommendation (Interior Parcels: 3 acres with minimum 150-foot frontage)	337	18	355
Task Force Motion (Interior Parcels: 1.5 acres with minimum 100-foot frontage)	337	41	378

Community Engagement

The Task Force requested staff explore additional community engagement requirements for Signature Projects. Task Force members discussed various concerns regarding the existing community engagement process that could be more equitable and effective in collecting input.

The General Plan includes high-level policy direction and desired outcomes for community engagement under Goal CE-1 Active Community Engagement and associated policies (see Attachment B for the General Plan Community Outreach goal and policies). Policies under Goal CE-1 generally require a diverse, convenient, accessible, and multi-media outreach process among other things. Some of the more detailed strategies and approaches to community engagement are addressed through the City’s Public Outreach Policy for Pending Land Use and Development Proposals (Policy 6-30).

¹ Land uses considered “commercial” include Neighborhood Community Commercial, Regional Commercial, Urban Village, Mixed Use Commercial, Combined Industrial/Commercial, Industrial Park, Light Industrial, and Heavy Industrial.

The intent of Policy 6-30 is to establish a baseline protocol for dissemination of information related to development activity and to encourage early and frequent communication between City staff, applicants and the public. The City recently completed an audit of the community engagement process under Policy 6-30. The audit was presented and accepted by City Council on April 23, 2019 which included a report that provided eight recommendations. The eight recommendations include revising procedures concerning notices and posting, interpretation services guidelines, additional guidance on mailing radii and permit types, and online information. Thus far, staff has implemented Recommendation no. 8 which establishes a mechanism for community feedback on the public notice/hearing process to inform future process improvements.

Community feedback surveys are available at community meetings and public hearings. A link to an online version of the survey is provided at the meetings and hearings as well. Staff is currently aggregating feedback from the survey to identify other improvements or changes to Policy 6-30. If City Council prioritizes updates to Policy 6-30 as part of staff's policy work and allocates resources, staff anticipates an approximately 18-month process to address the audit recommendations and complete an update to Council Policy 6-30. Staff would review current practices, best practices from other jurisdictions, seek input from residents, the development community, and community groups and explore their ideas. This would include considering a range of potential new outreach tools, both tech and non-tech.

Staff has clarified that State law requiring objective standards for policies would only apply to development standards. Additionally, because the General Plan typically establishes high-level policies, specific community outreach requirements are not suitable to include in the Signature Project policy. Every community is different, and the General Plan should not prescribe one approach for any given community. Community engagement strategies should be tailored to the intended community. Some examples of community engagement strategies include:

- *Online Engagement:* For communities with a high usage of internet, administer online surveys to gather stakeholder feedback.
- *Pop-Up Events:* To reach and target specific communities, tabling community events such as cultural fairs or farmers markets would reach more stakeholders than typically attended by community meetings.
- *Additional Community Meetings:* If community meetings are the most effective community engagement strategy for a certain neighborhood, additional community meetings may provide additional opportunities for stakeholder feedback.

Staff recommends including policy language that would strive for an inclusive outcome through a robust engagement process that is tailored to the community, reach a diverse variety of stakeholders, and is a flexible but high-quality process. Staff recommends the following policy language in the Signature Project Policy:

“Create a tailored community engagement strategy to optimize broad and diverse stakeholder engagement in the community where the project is located to better collect feedback of the design and quality of the project. The community engagement strategy must adhere to and include the policies outlined under General Plan Goal CE-1 Active Community Engagement.”

Another Task Force member also asked staff to explore the possibility of including childcare for Signature Project community meetings. Traditional “childcare” would create liability issues for the City and would require stringent requirements to classify as “childcare.” Other City community meetings have provided “supervised activities for children” where applicants hire a Recreation Leader from the Parks, Recreation, and Neighborhood Services Department to lead and supervise activities for children during the meeting. Children participating in these activities need to be toilet trained and parents are required to sign a waiver to use this service. Additionally, Recreation Leaders are not required to attend these events — they may volunteer to work the event at their discretion, therefore availability of a Recreation Leader is not guaranteed. In the experience of staff that have been on projects that used this service, parents typically keep their children with them. For these reasons, staff does not recommend mandating childcare as part of the Signature Project Policy.

Affordable Housing Incentive

As part of the Task Force motion on Signature Project policy updates, the Task Force also requested that staff to come back with a proposal that would allow Signature projects that include on-site affordable housing to reduce their required commercial space. To be consistent with other City goals for affordable housing, the Signature Project affordable housing components should be tied to the City’s Inclusionary Housing Ordinance (IHO).

Affordable Housing Requirements for Signature Projects

The IHO requires new residential developments with 20 units or more to provide 15% of housing on-site that is affordable at specified income levels. Alternatives to comply with IHO are available but in the election of an alternative, a project must meet a 20% obligation. IHO compliance alternatives include an in-lieu fee, dedication of land, surplus in-lieu credits, acquisition and rehab of units, and more. A project may choose from a list of IHO compliance alternatives to meet their IHO requirement. For a full list of alternatives and for more details on the IHO, see Attachment C.

The IHO dictates the affordability levels of the 15% requirement. The current IHO requires 9% of units at 80% Area Median Income (AMI) and 6% at 50% AMI to meet the 15% IHO requirement. AMI is the midpoint of a region’s income distribution and for housing policy and is used to set thresholds of affordability for each city. Currently the City uses 80% AMI as the Moderate Income level and 50% AMI as the Very Low Income level.

Housing Department staff are currently working on updates to the IHO, which will be considered by the City Council in Spring 2020. The preliminary recommendation of target income levels for rental housing is 5% at 100% AMI (Moderate Income), 5% at 60% AMI (Low Income), and 5% at 50% AMI (Very Low Income). The proposed changes are intended to encourage both on-site affordable housing and create more opportunities for moderate income housing.

Alternative Affordable Housing Incentive Proposals

Staff developed three options for Task Force consideration. Option #1 responds to Task Force direction, while Option #2 and Option #3 are additional options for Task Force consideration that

maintain the intent of Signature Projects that were meant to be projects that go above and beyond the standard project.

With the IHO as the baseline, commercial reduction incentives could be provided for Signature Projects that provide affordable housing on-site that exceed the 15% minimum requirement. Affordable housing units exceeding the 15% IHO minimum must have an affordability level of 80% AMI or less to qualify for a reduction in required commercial space. This provides an incentive for developers to create housing opportunities for low- to very-low-income residents. To take advantage of the affordable housing incentive and commercial reduction, affordable housing must be provided on-site. No alternatives or combination of alternatives would be accepted. For example, if a project paid the in-lieu fee to meet the IHO requirement, they cannot only build an additional 5% of affordable housing units on site to use the commercial reduction. Housing (both affordable and market rate) and commercial components of the project must be developed concurrently – procedures, standards, and timing must be consistent with the IHO. Affordable housing units exceeding 15% by increments of 5% would qualify for commercial square footage reduction at the following rates up to 50% on-site affordable housing units:

Percentage of On-Site Affordable Units	Percentage Reduction in Required Commercial Space
20%	15%
25%	20%
30%	25%
35%	30%
40%	35%
45%	40%
50%	45%

1. Option #1: Signature Projects that desire to take advantage of the commercial requirement reductions would first need to meet their IHO requirements by providing 15% of their total units as affordable on site. The Project then could reduce their commercial by providing additional affordable as outlined above.
2. Option #2: Require the 15% IHO requirement to be built on-site for all Signature Projects regardless of whether a project uses the affordable housing incentive above or not. If the IHO requirement on-site is not met, the only alternative that would be accepted in-lieu of the IHO on-site requirement would be a land donation equal to 20% of the IHO requirement. The project would still have the option to reduce their fair share commercial requirement as outlined above.
3. Option #3: Require “above fair share” for commercial based on objective percentages based on Urban Village type (e.g., Local Transit, Neighborhood Village), but if 15% IHO is built on-site, then the project is only required to provide its fair share of commercial. Projects could then reduce their commercial requirement from their fair share amount as outline above.

Staff seeks direction from the Task Force for a preferred alternative or suggestions for other alternatives that should be further studied or considered. Depending on the Task Force

recommendation, additional financial analysis could be completed to understand the potential implications of the recommended policy upon development and to understand if the policies would achieve the desired goal of incentivizing affordable housing. Given the timeline of the Task Force meetings, this financial analysis would need to be done following the conclusion of the Task Force process and could result in staff modifying the Task Force recommendation to City Council.

The table below provides a summary of all three options for affordable housing incentives for Signature Projects described above.

Table 2: Summary of Affordable Housing Incentive Options

	Option #1	Option #2	Option #3
On-Site 15% IHO Requirement	No	Yes	No, if providing above fair share of commercial
IHO Alternatives Accepted	<ul style="list-style-type: none"> • Off-Site at 20% • In-Lieu Fee at 20% • Dedication of Land at 20% • Surplus In-Lieu Credits at 20% • Acquisition and Rehab of Units at 20% • HUD Restricted Units at 20% • Combination of Methods at 20% 	Dedication of Land at 20%	<ul style="list-style-type: none"> • Off-Site at 20% • In-Lieu Fee at 20% • Dedication of Land at 20% • Surplus In-Lieu Credits at 20% • Acquisition and Rehab of Units at 20% • HUD Restricted Units at 20% • Combination of Methods at 20%
Affordability Level to Redeem Commercial Reduction Incentives	Less than 80% AMI	Less than 80% AMI	Less than 80% AMI
Commercial Reduction Incentives	20% affordable housing : 15% reduction of commercial 25% affordable housing : 20% reduction of commercial 30% affordable housing : 25% reduction of commercial 35% affordable housing : 30% reduction of commercial 40% affordable housing : 35% reduction of commercial 45% affordable housing : 40% reduction of commercial 50% affordable housing : 45% reduction of commercial		

Additional Consideration on Affordable Housing Incentives for Signature Projects

The preservation of key commercial sites is integral to achieving the General Plan's economic development and fiscal sustainability goals. To balance economic development and housing goals, staff recommends that some key employment sites would not be eligible for a reduction in commercial space requirement. Signature Project sites are generally larger sites at key locations, such as corners of major intersections which typically have more commercial viability. Staff will undergo an analysis of key commercial sites in Urban Villages and identify sites that would not be eligible for a reduction in commercial space. This will be included in the policy language and part of the recommendation to City Council.

Policy IP-5.12

The City Council approved the following General Plan Four-Year Review scope of work items related to affordable and mixed-income housing:

- 1) *Consider allowing mixed-income housing within mixed-use developments with a significant percentage of restricted affordable homes to proceed within an urban village ahead of a Growth Horizon. (Housing Crisis Workplan Item #19)*
- 2) *Explore changes to commercial space requirements for affordable housing developments. (Housing Crisis Workplan item #22)*

Staff reviewed potential changes to Policy IP-5.12 to address both these scoping items. Policy IP-5.12 currently allows residential projects that are 100% affordable to move forward within an Urban Village ahead of a Growth Horizon, or in a Village in a current Horizon that does not have a Council Approved Plan:

“Residential projects that are 100% affordable deed restricted by a public entity for a period not less than 55 years to low income residents (earning 80% or less of the Area Median Income), can proceed within an Urban Village ahead of a Growth Horizon, or in a Village in a current Horizon that does not have a Council approved Plan, if the project meets the following criteria:

1. *The project does not result in more than 25% of the total residential capacity of a given Urban Village being developed with affordable housing ahead of that Village’s Growth Horizon. For Villages with less than a total housing capacity of 500 units, up to 125 affordable units could be developed, however the total number of affordable units cannot exceed the total planned housing capacity of the given Village.*
2. *The development is consistent with the Urban Village Plan for a given Village, if one has been approved by the City Council.*
3. *Development that demolishes and does not adaptively reuse existing commercial buildings should substantially replace the existing commercial square footage.*
4. *The project is not located on identified key employment opportunity sites, which are sites generally 2 acres or larger, located at major intersections and for which there is anticipated market demand for commercial uses within the next 10 to 15 years.*
5. *Affordable housing projects built in Villages under this policy would not pull from the residential Pool capacity.”*

With the Task Force’s recommendation of the inclusion of an affordable housing incentive through Signature Projects, staff recommendations for Signature Projects above already address and allow mixed-income housing ahead of an Urban Village Plan and Horizon through Signature Projects. Staff does not recommend changes to the percentage of affordable housing provided (100%) or the affordability level (80% or less AMI). Changing Policy IP-5.12 to allow mixed-income housing would disincentivize use of the Signature Project policy because of the higher level of requirements in the Signature Project policy compared to Policy IP-5.12 (e.g., provision of commercial and open space). Consequently, the development of fewer affordable housing units at any level and a

significant reduction of commercial development provided by mixed use development would result from changing the percentage of affordable units required by Policy IP-5.12.

Policy IP-5.12 intended to replace commercial space with affordable housing; however, this policy was tested by the low-income senior housing project at 397 Blossom Hill Road— a proposed development for 147 units of affordable apartments for seniors that proposes a 50% replacement of its existing on-site commercial space. As a result of that project, staff proposes to formalize the 50% commercial replacement requirement as an objective metric to clarify the current “substantial replacement” requirement of existing on-site commercial uses. Requiring 50% replacement of existing on-site commercial space is drastically less than the commercial requirement of Signature Projects and other market-rate mixed-use projects. As explained above under the Signature Project Policy, other projects would be required to provide their fair share of commercial space which requires both the 100% replacement of existing on-site commercial space and a site’s planned commercial obligation. Under Policy IP-5.12, 100% affordable housing projects would only need to replace 50% of the existing on-site commercial space.

Additionally, staff recommends revising the policy requirements to remove criterion 1 and criterion 5 of the policy. Much like the Residential Pool Policy that the Task Force voted to eliminate in the December Task Force meeting, criterion 1 limits the number of residential units that can be developed under this policy, while criterion 5 refers to the Residential Pool Policy directly. Staff recommends removing criterion 1 and criterion 5 to remove additional limitations on affordable housing growth and to reflect the elimination of the Residential Pool Policy from the previous Task Force meeting.

For these reasons, staff does not recommend any changes to the affordability component of Policy IP-5.12, but recommends establishing an objective and clear standard for commercial replacement (criterion 3), and removing criteria 1 and 5 as described above.

Staff Recommendations

Signature Project Policy

Staff recommends adding policy language to tailor a project’s community engagement strategy as part of the community engagement requirement for Signature Projects:

“Create a tailored community engagement strategy to optimize broad and diverse stakeholder engagement in the community where the project is located to better collect feedback of the design and quality of the project. The community engagement strategy must adhere to and include the policies outlined under General Plan Goal CE-1 Active Community Engagement.”

Staff also recommends providing a commercial requirement reduction incentive for affordable housing provided on-site that would exceed the minimum established by the IHO. For affordable housing units exceeding 15% at less than 80% AMI, the following incentives apply:

- 20% affordable housing : 15% reduction of commercial
- 25% affordable housing : 20% reduction of commercial
- 30% affordable housing : 25% reduction of commercial

- 35% affordable housing : 30% reduction of commercial
- 40% affordable housing : 35% reduction of commercial
- 45% affordable housing : 40% reduction of commercial
- 50% affordable housing : 45% reduction of commercial

The incentives described above apply to the following three options for Task Force vote:

- *Option #1:* Signature Projects that desire to take advantage of the commercial requirement reductions would first need to meet their IHO requirements by providing 15% of their total units as affordable on site. The Project then could reduce their commercial by providing additional affordable as outlined above.
- *Option #2:* Require the 15% IHO requirement to be built on-site for all Signature Projects regardless of whether a project uses the affordable housing incentive above or not. If the IHO requirement on-site is not met, the only alternative that would be accepted in-lieu of the IHO on-site requirement would be a land donation equal to 20% of the IHO requirement. The project would still have the option to reduce their fair share commercial requirement as outlined above.
- *Option #3:* Require “above fair share” for commercial based on objective percentages based on Urban Village type (e.g., Local Transit, Neighborhood Village), but if 15%IHO is built on-site, then the project is only required to provide its fair share of commercial. Projects could then reduce their commercial requirement from their fair share amount as outline above.

Staff will undergo an analysis of key commercial sites in Urban Villages and identify sites that would not be eligible for a reduction in commercial space, which will be included in the policy language and part of the recommendation to City Council.

Policy IP-5.12

Staff recommends keeping the affordability levels of the existing Policy IP-5.12 but revising the remainder of the policy to reflect changes from previous Task Force recommendations and clarifying the policy language for more objective standards as such:

“Residential projects that are 100% affordable deed restricted by a public entity for a period not less than 55 years to low income residents (earning 80% or less of the Area Median Income), can proceed within an Urban Village regardless of Growth Horizon or a Council Approved Plan, if the project meets the following criteria:

- 1. The development is consistent with the goals, policies, and land use designation of the Urban Village Plan for a given Village, if one has been approved by the City Council.*
- 2. Development that demolishes and does not adaptively reuse existing commercial buildings shall replace at least 50% of the existing commercial square footage.*
- 3. The project is not located on identified key employment opportunity sites, which are sites generally 2 acres or larger, located at major intersections and for which there is anticipated market demand for commercial uses within the next 10 to 15 years.”*

Agenda Item 4 – Residential Uses in Neighborhood Business Districts (NBD)

Staff will present their recommendation on allowing residential uses in Neighborhood Business Districts (NBD). Task Force members will be given an opportunity to discuss, provide input, and ask questions about staff recommendations on allowing residential uses in Neighborhood Business Districts. Members of the community will be provided with an opportunity to address the Task Force. Task Force members will then vote on staff recommendations on Residential Uses in NBDs.

In the previous Task Force memo for the December 18, 2019 meeting, staff established a preliminary recommendation to amend the NBD overlay to include a policy that allows residential uses with less stringent commercial requirements and to amend Appendix 5 of the General Plan to include Willow Street/Calle Willow, North 13th Street, Willow Glen, Story Road, and Japantown (Taylor Street only) NBDs as Growth Areas to allow limited residential development (<https://www.sanjoseca.gov/home/showdocument?id=47777>). Staff is currently doing additional analysis on the Story Road NBD and will present its recommendations for the Story Road NBD at the February 27, 2020 Task Force Meeting.

Staff also recommended to do additional analysis on appropriate areas for housing development within each NBD, appropriate amount of commercial space required on-site, and appropriate residential density for each NBD before presenting the policy changes to the City Council. To further develop the policy recommendation, staff has completed the following additional analysis:

- A survey of existing land uses and building forms.
- Consulted with City building experts to determine if constructing ground-floor commercial space is feasible in the types of mixed-use developments anticipated in NBDs (e.g., wood-frame construction).
- An analysis of typology of residential and mixed-use projects that would be likely and appropriate for NBDs given neighborhood context and the policies of the General Plan.

The land use survey maps are described in Attachment D. As described, staff also consulted with Building staff to determine that developments of the scale envisioned in NBDs are generally feasible to construct, keeping costs low with wood-frame construction; however, staff have not yet determined the financial feasibility of projects like these and the burden that the commercial component may have.

The primary purpose of Neighborhood Business Districts is to provide neighborhood serving retail business and services to the surrounding community and to provide a “third space” where community members can socialize and interact. Most of the NBDs analyzed are vibrant and are successfully achieving this purpose. The intended outcome of staff recommended policy change is to allow the introduction of residential uses within NBDs to enhance their overall vitality and further support the businesses within them. The proposed Policy is not intended to allow the conversion of existing commercial properties to fully residential projects or to allow residential development that could impact the success of an NBD as a neighborhood business district. In our analysis, staff determined that neighborhood business districts should still live up to their purpose in being business-first and

any residential development should not impact viability of surrounding commercial businesses. Existing businesses in these NBDs are doing well, and staff recommends keeping existing businesses while allowing residential development in these areas to add a customer base and commercial viability. It is imperative that a residential project replace the existing commercial square footage on a given site in order to maintain the primarily commercial character of the business district.

To enhance the commercial vitality of the NBDs and fill in the “missing teeth” within an NBD’s existing commercial areas, residential development on vacant properties located between two adjoining commercial properties should also connect the commercial frontage by providing ground floor commercial. To maintain the commercial frontage and establish an attainable commercial requirement, staff recommends that parcels must replace existing commercial space and only parcels bounded by commercial/mixed-uses on both sides would need to provide new commercial space. Staff analysis showed that there were very few vacant parcels that met this requirement. For existing wholly residential properties within the NBD or for properties that are vacant, and not adjoining to existing commercial properties on both sides, staff are proposing that 100% residential projects could be developed with no commercial component. The limited development potential for new commercial uses in NBDs is acceptable since these areas are intended for smaller neighborhood serving businesses rather than larger commercial uses.

Prior to a final staff recommendation to Planning Commission and City Council, staff will engage the impacted NBD communities regarding these proposals to collect input on the density and height that stakeholders would like to see in their respective NBDs. Staff reviewed several typologies of residential and mixed-use developments that are appropriate in these NBDs and will present them at the Task Force meeting.

Staff Recommendation

Staff recommends the following General Plan changes:

1. Amend the General Plan to include Willow Street/Calle Willow, North 13th Street, Willow Glen, and Japantown (Taylor Street only) NBDs as Growth Areas in Appendix 5 of the General Plan to allow limited residential development. These NBDs do not have a specific residential growth capacity assigned to them, instead staff recommends reallocating a pool of 600 residential units from Urban Villages to allow entitlement of residential or mixed-use residential projects in these NBDs. The capacity would function as a pilot and could be increased as part of a General Plan Annual Review or Four-Year Review.
2. Amend the existing Neighborhood Business District overlay to add the following language:
“Residential uses are allowed in the Japantown (Taylor Street only), North 13th Street, Willow Glen, and Willow Street Neighborhood Business Districts. New residential or residential-mixed use developments shall:
 1. *Replace 100% of the existing amount of commercial or industrial space on site, with commercial square footage. Where commercial or industrial uses do not currently exist, no commercial space is required unless the property is bounded by (shares a property line) with existing employment uses that also front the primary neighborhood businesses*

street (e.g. Lincoln Avenue, Willow Street, Taylor Street or 13th Street). In these location, a residential project would need to provide ground-floor commercial space to create continuity of the commercial frontage along the street;

2. *Have the following maximum residential densities (to be determined):*
 - *Willow Street: X DU/AC*
 - *North 13th Street: X DU/AC*
 - *Willow Glen: X DU/AC*
 - *Japantown (Taylor Street): X DU/AC;*
3. *Have the following height limits (to be determined):*
 - *Willow Street: X stories*
 - *North 13th Street: X stories*
 - *Willow Glen: X stories*
 - *Japantown (Taylor Street): X stories;*
4. *Be allowed to keep its existing on-site density and height if it is higher than the maximums established in this policy;*
5. *Comply with City Design Guidelines; and*
6. *Adaptively reuse any historic structures that are on a property.”*

Staff also recommends engaging the NBD communities prior to presenting the final policy language to Planning Commission and City Council. Based on the feedback from the communities, staff will revise the proposed policy text with the NBD-specific residential densities and heights.

Announcements

There are no announcements.

Next Meeting

The next meeting is scheduled for February 27, 2020 at 6:00 p.m. Topics of this meeting will include Opportunity Housing, Coyote Valley, and growth capacity shifts.

If you have any questions, please contact either myself or Kieulan Pham. I can be reached by phone at (408) 535-7896 or by email at: jared.hart@sanjoseca.gov. Kieulan can be reached by phone at (408) 535-3844 or by email at: kieulan.pham@sanjoseca.gov.

Jared Hart
Division Manager

Attachments:

- Attachment A: Strikeout/Underline Policy Changes
- Attachment B: General Plan Community Engagement Policies
- Attachment C: Inclusionary Housing Ordinance Factsheet
- Attachment D: Neighborhood Business Districts Maps

Attachment A

Staff Recommendations on Urban Village Policies

1. *Recommendation: Revise Policy IP-2.10 (Urban Village Planning Prioritization)*

Chapter 7, “Implementation”, Page 9

Policy IP-2.10

~~Open Horizons for development in planned phases~~ Prioritize the preparation of Urban Village plans to give priority for new residential-growth to occur in areas proximate to Downtown, with access to existing and planned transit facilities, and adequate infrastructure to support intensification, and proximate to other Growth Areas to contribute to the City’s urban form. Growth Areas with high market demand shall also be prioritized to ensure that development follows the community’s vision for the future.

Recommended Policy IP-2.10

Policy IP-2.10

Prioritize the preparation of Urban Village plans to give priority for new residential growth to occur in areas proximate to Downtown, with access to existing and planned transit facilities, and adequate infrastructure to support intensification, and proximate to other Growth Areas to contribute to the City’s urban form. Growth Areas with high market demand shall also be prioritized to ensure that development follows the community’s vision for the future.

2. *Recommendation: Revise Policy IP-5.10 (Signature Project Policy)*

Policy IP-5.10 Revisions (Chapter 7, “Implementation”, Page 19)

Policy IP-5.10 (Criterion 6 only – affordable housing component pending Task Force vote)

~~6. Is planned and designed through a process that provided a substantive opportunity for input by interested community members.~~ Create a tailored community engagement strategy to optimize broad and diverse stakeholder engagement in the community where the project is located to better collect feedback of the design and quality of the project. The community engagement strategy must adhere to and include the policies outlined under General Plan Goal CE-1 Active Community Engagement.

Recommended Policy IP-5.10 (criterion 6 only)

6. Create a tailored community engagement strategy to optimize broad and diverse stakeholder engagement in the community where the project is located to better collect feedback of the design and quality of the project. The community engagement strategy must adhere to and include the policies outlined under General Plan Goal CE-1 Active Community Engagement.

3. *Recommendation: Revise Policy IP-5.12 (Affordable Housing Requirements)*

Policy IP-5.12 Revisions (Chapter 7, “Implementation”, Pages 19 and 20)

Policy IP-5.12

Residential projects that are 100% affordable deed restricted by a public entity for a period not less than 55 years to low income residents (earning 80% or less of the Area Median Income), can proceed within an Urban Village ~~ahead of a Growth Horizon, or in a Village in a current Horizon that does not have a Council approved Plan~~ regardless of Growth Horizon or a Council

Approved Plan, if the project meets the following criteria:

- ~~1. The project does not result in more than 25% of the total residential capacity of a given Urban Village being developed with affordable housing ahead of that Village’s Growth Horizon. For Villages with less than a total housing capacity of 500 units, up to 125 affordable units could be developed, however the total number of affordable units cannot exceed the total planned housing capacity of the given Village.~~
2. The development is consistent with the goals, policies, and land use designation of the Urban Village Plan for a given Village, if one has been approved by the City Council.
3. Development that demolishes and does not adaptively reuse existing commercial buildings ~~should substantially~~ shall replace at least 50% of the existing commercial square footage.
4. The project is not located on identified key employment opportunity sites, which are sites generally 2 acres or larger, located at major intersections and for which there is anticipated market demand for commercial uses within the next 10 to 15 years.
- ~~5. Affordable housing projects built in Villages under this policy would not pull from the residential Pool capacity.~~

Recommended Policy IP-5.12

Policy IP-5.12

Residential projects that are 100% affordable deed restricted by a public entity for a period not less than 55 years to low income residents (earning 80% or less of the Area Median Income), can proceed within an Urban Village regardless of Growth Horizon or a Council Approved Plan, if the project meets the following criteria:

1. The development is consistent with the goals, policies, and land use designation of the Urban Village Plan for a given Village, if one has been approved by the City Council.
2. Development that demolishes and does not adaptively reuse existing commercial buildings shall replace at least 50% of the existing commercial square footage.
3. The project is not located on identified key employment opportunity sites, which are sites generally 2 acres or larger, located at major intersections and for which there is anticipated market demand for commercial uses within the next 10 to 15 years.

4. *Recommendation: Revise the Neighborhood Business District Overlay to Allow Residential Uses*

Recommended Text Addition (Chapter 5, “Special Land Use Designations and Overlays”, Pages 23 and 24)

Neighborhood Business District Overlay

Residential uses are allowed in the Japantown (Taylor Street only), North 13th Street, Willow Glen, and Willow Street NBDs. New residential or residential-mixed use developments shall:

1. Replace 100% of the existing amount of commercial or industrial space on site, with commercial square footage. Where commercial or industrial uses do not currently exist, no commercial is required unless the property shares a property line with existing employment uses that also front the primary neighborhood businesses street (e.g. Lincoln Avenue, Willow Street, Taylor Street or 13th Street). In these location, a residential project would need to provide ground-floor commercial to create continuity of the commercial frontage along the street;
2. Have the following maximum residential densities:
 - Willow Street: X DU/AC
 - North 13th Street: X DU/AC
 - Willow Glen: X DU/AC
 - Japantown (Taylor Street): X DU/AC;
3. Have the following height limits:
 - Willow Street: X stories
 - North 13th Street: X stories
 - Willow Glen: X stories
 - Japantown (Taylor Street): X stories;
4. Be allowed to keep its existing on-site density and height if is higher than the maximums established in this policy;
5. Comply with City Design Guidelines; and
6. Adaptively reuse any historic structures that are on a property.

Attachment B

General Plan Community Outreach Policies

Community Engagement

The proposed Goals, Policies and Implementation Actions for Community Engagement provide high-level policy support for the public outreach and community engagement policies and activities conducted as part of the land use planning and implementation process. They also reflect the City's general commitment to open government and community participation in its governance activities.

Active Community Engagement

Goal CE-1 – Active Community Engagement

Actively develop community awareness, understanding, and interest in land use issues and public policy issues, including land use, and empower the community to engage in the shaping of those policies.

Policies – Active Community Engagement

- CE-1.1** Provide convenient public access to City facilities, programs, services, and public records.
- CE-1.2** Provide a transparent process for public engagement of San José's diverse stakeholders.
- CE-1.3** Maintain and implement the City's Public Outreach Policy.
- CE-1.4** Use multi-media with emphasis on online messaging to effectively communicate with diverse stakeholder groups.
- CE-1.5** Use the City's library system as an active resource for engagement with the community. Use the library to provide informational programs and resources, a repository for formal and informal information regarding City operations and strategies, and resources to facilitate community participation in its governance.
- CE-1.6** Regularly evaluate how effectively public information is provided and how public knowledge is garnered and considered. Modify methods, techniques, or practices as needed to respond more effectively to the community and incorporate the full range of public knowledge into policy and land use actions.
- CE-1.7** To ensure that the work of government is inclusive of the community, continue to conduct and improve an interactive public engagement and participation process that:
 1. Seeks to engage the broadest possible spectrum of the community in public policy discussions, including residents, businesses, non-profit organizations, other public agencies, and particularly underrepresented groups;
 2. Uses a full range of community engagement and meeting facilitation techniques to achieve an open exchange of ideas and positive outcomes for public meetings;



3. Provides adequate time and opportunities for early engagement when community members may have the greatest ability to impact outcomes;
4. Seeks to resolve community concerns in advance of a public hearing on a topic;
5. Proactively recruits and educates community members to nurture the effectiveness of their participation;
6. Actively encourages participation by a broad range of community members;
7. Includes meetings at a location convenient to the potentially affected community;
8. Uses materials written in a readily accessible manner;
9. Offers San José's diverse community opportunities to shape public policy and land use decisions; and
10. Provide support for increased community participation, particularly in areas, such as those with language barriers or a concentration of low income households, that historically have had less familiarity or experience with participation in the development and implementation of City policies

CE-1.8 Periodically assess opportunities for incorporating community knowledge or values into policy formulation.

CE-1.9 Appoint advisory bodies, task forces, or ad hoc committees as needed to ensure broad perspective. Encourage membership of such groups to reflect community diversity.

CE-1.10 Educate the community about City issues and provide avenues for influencing its decisions, including but not limited to serving on boards, commissions, committees, task forces, or participating in the land use and development review process.

Attachment C Inclusionary Housing Ordinance

What is the Inclusionary Housing Ordinance?

The Inclusionary Housing Ordinance (IHO), Chapter 5.08 of the San José Municipal Code, was adopted on January 12, 2010. Any development project with 20 or more residential units are subject to the ordinance. The IHO requires residential developers who create new, additional, or modified For-Sale or Rental units to provide 15% of housing on-site that is affordable to income qualified buyers/renters specified below. The base obligation is where 15% of the Inclusionary Units are provided On-Site. Alternative options to comply with IHO are available but in the election of an alternative, a project must meet a 20% obligation.

OBLIGATION		FOR-SALE	RENTAL
On-Site	15%	Purchasers must be at or below 120% AMI	9% at MOD (80% AMI) 6% at VLI (50% AMI)
Off-Site	20%	Purchasers must be at or below 120% AMI	12% at LI (60% AMI) 8% at VLI (50% AMI)
In-Lieu Fee	20%	In-lieu fee per Inclusionary home is \$192,946 (July 1, 2019 to June 30, 2020)	In-lieu fee per Inclusionary unit is \$125,000 (July 1, 2019 to June 30, 2020)
Dedication of Land	20%	Marketable title, general plan designation zoned for residential development and at a density required, and suitable for inclusionary units. Must comply with the requirements as listed in the Municipal Code 5.08.530.A.	
Surplus In-Lieu Credits	20%	Developers may purchase or transfer credits for affordable housing units that are available for occupancy concurrently with market rate units. Must comply with the requirements as listed in the Municipal Code 5.08.540.C.	
Acquisition and Rehab of Units	20%	Rehabilitate existing market rate units for conversion to units affordable to Lower and Very Low Income Households. Number of Rehabilitation units must be 2 to 1 of the base inclusionary obligation. Must comply with the requirements as listed in the Municipal Code 5.08.550.	
HUD Restricted Units	20%	Developers may provide units that are restricted to Affordable Housing Cost for Lower or Very Low Income Households through entering into an agreement with the U.S. Department of Housing and Urban Development (HUD). Must comply with the requirements as listed in the Municipal Code 5.08.560.H.	
Combination of Methods	20%	Developers may propose any combination of methods to satisfy the project's inclusionary housing obligation. Must comply with the requirements as listed in the Municipal Code 5.08.570.	

What is Area Median Income (AMI)?

The City establishes income limits based upon the Area Median Income (AMI). These income limits are used in determining a family's initial eligibility to participate in certain administered housing assistance programs and vary by household size. Income limits are set by percentages of the city's median income to define levels of income (e.g., extremely low income, low income, etc.). By way of example, 80% of AMI means 80% of the total median income in the city which the City defines as "moderate income".

Proposed Changes to the IHO

On November 5, 2019, the Housing Department presented a staff report and set of recommendations to update the IHO and encourage the construction of moderate-income affordable apartments and payment of in-lieu fees for the construction of low-income apartments. The goal is to provide a broader range of housing options for City residents. The proposed changes to the IHO will be considered by the City Council in Spring 2020. See the proposed changes summarized in the tables on the next two pages.

Proposed Changes for Rental Properties

APPROVED RECOMMENDATIONS BY CITY COUNCIL ON 11/05/19		
	Current Rules	Proposed Rules
Base Requirement	15% of apartments in a new residential development must be affordable	No Change
Apply to Small Projects	Applies to buildings with 20 or more units	Applies to buildings with 5 or more units (Housing staff will provide additional analysis on this recommendation)
Serve a Wider Income Range	Target income levels: <ul style="list-style-type: none"> 9% of the apartments rent at 80% AMI 6% of the apartments rent at 50% AMI 	Target income levels: <ul style="list-style-type: none"> 5% of the apartments rent at 100% AMI 5% of the apartments rent at 60% AMI 5% of the apartments rent at 50% AMI OR <ul style="list-style-type: none"> 10% of the apartments rent at 30% AMI
New Methodology Calculation	Fee is based on the cost of the City to create a new affordable apartment	Fee is based on the difference between market rate and affordable rents and considers the cost to develop new housing
Restructure In-Lieu Fee	In-lieu of building affordable apartments, developers may pay the City \$125,000 per apartment required that isn't built (~\$28/sq. ft.)	In-lieu of building affordable apartments, developers may pay a fee of \$43/sq. ft. (multiplied by square footage of entire development). Will provide advance notice of fee increases.
Encourage On-Site Compliance	Developers may use combination of on-site apartments and in-lieu fees, but rules are unclear and not described in detail	Developers may build 5% of moderate-income affordable apartments on-site, and pay a fee of \$18.26/sq. ft. in lieu of building the remaining low-income affordable apartments
Clustering	Affordable apartments must be dispersed within the market-rate development to be considered on-site	Affordable apartments may be clustered to allow affordable housing financing and will be considered "on-site" if located on an adjacent parcel
Clarify Rules of Off-Site Projects	Funding for affordable housing apartments is only available for a higher number of apartments or lower income levels than required	Funding will be made available for affordable apartments where the developer demonstrates a financial contribution from the market-rate developers; developers who choose this option will receive a 25% discount off the \$43/sq. ft. fee
Longer Affordability	Rent restrictions in place for 55 years	Rent restrictions in place for 99 years (Housing staff will provide additional analysis on this recommendation)
Transition Approach		
In-lieu fees will be transitioned into the full \$43/sq. ft. across the City once the market recovers. Recommendation: 1. West Valley, Willow Glen and Cambrian will be set at \$43/sq. ft.; 2. All other areas will be set at \$18.26/sq. ft. – consistent with the current AHIF; 3. Downtown high-rise will be charged \$0. Transition Approach: Fees will adjust to the full \$43/sq. ft. after three years – opportunity to evaluate (City staff are working to update the planning area map where these recommended rates will apply)		
Additional Changes to Inclusionary Housing Ordinance		
<ul style="list-style-type: none"> Update administration and monitoring Incorporate co-living 		

Proposed Changes for For-Sale Properties

APPROVED RECOMMENDATIONS BY CITY COUNCIL ON 11/05/19		
	Current Rules	Proposed Rules
Set Aside	15% of homes in a new residential development must be price-restricted* for moderate-income buyers	No Change
	If building off-site, 20% of the new homes must be affordable to moderate-income buyers	No Change
In-Lieu Fee	In-lieu of building price-restricted homes, developers may pay the City \$193,000 per required price-restricted home that isn't built	In-lieu of building price-restricted homes, developers may pay a fee of \$25/sq. ft.** (multiplied by square footage of entire development)
Clustering	Affordable apartments must be dispersed within the market-rate development to be considered on-site	Affordable apartments may be clustered to allow financing and will be considered "on-site" if located on an adjacent parcel
Alternative Approach		
In-lieu fees will be transitioned into the full \$25/sq. ft. across the City once the market recovers. Downtown high-rise will be charged \$0; other for-sale developments will be set at \$18.26/sq. ft. Fees will adjust to the full \$25/sq. ft. after a specified period of time (two years for example). (City staff are working to update the planning area map where these recommended rates will apply)		
*Price-restricted, for-sale housing is defined as housing that is affordable to a buyer who earns 80% to 120% of the area median income. **In-lieu fees will vary slightly based on actual affordability calculations for each development.		

ATTACHMENT D

Neighborhood Business Districts (NBD) Maps

- I. Willow Street/Calle Willow
- II. North 13th Street
- III. Willow Glen
- IV. Japantown

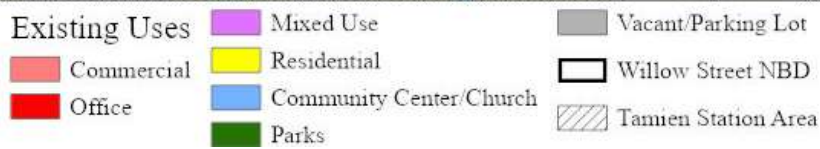
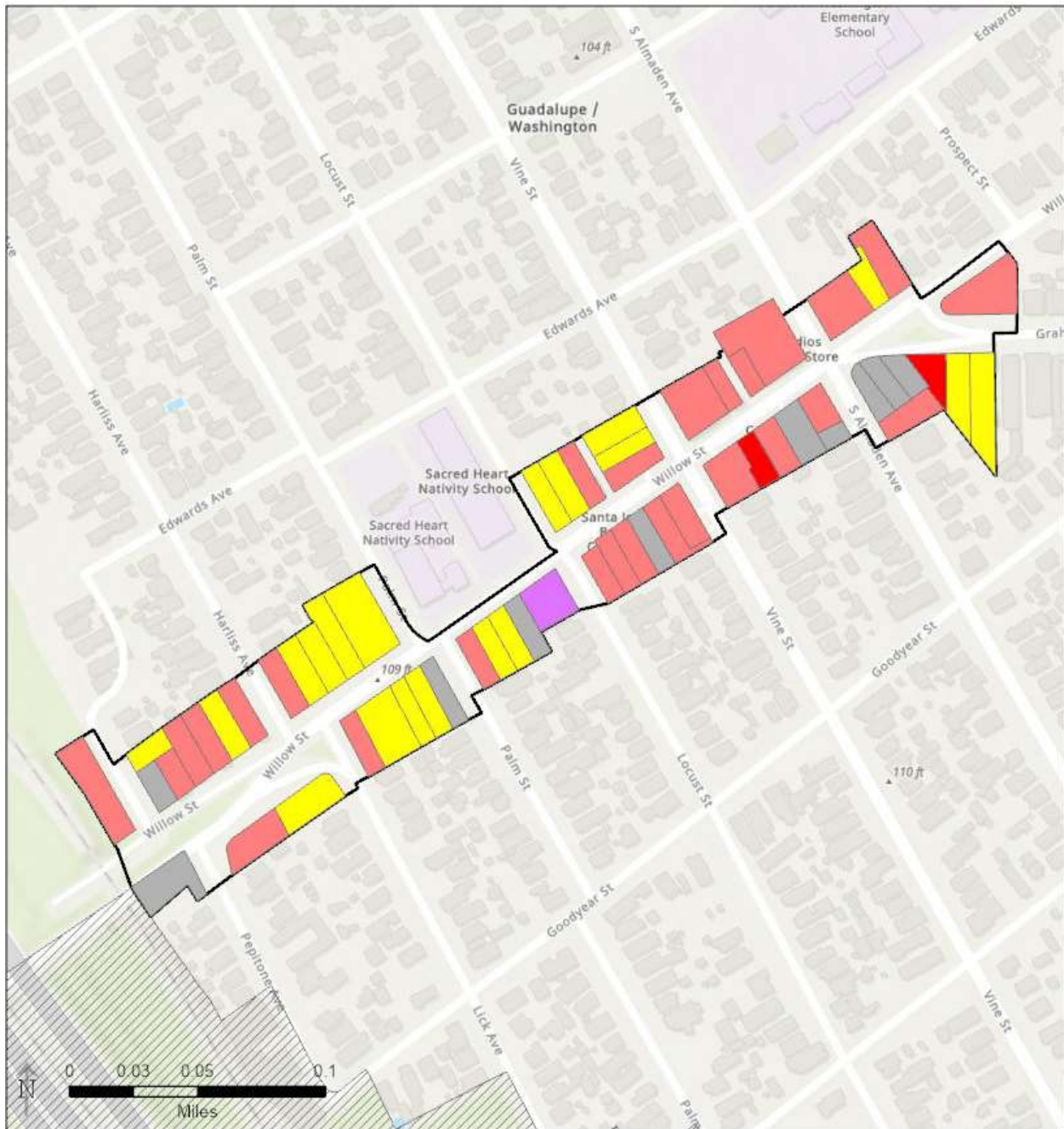
I. Willow Street/Calle Willow

Willow Street, or Calle Willow NBD, is an established Latino district with Spanish-speaking businesses located along both sides of Willow Street between approximately McLellan Avenue and Almaden Avenue. The NBD is approximately 14.8 acres and is comprised of small lots ranging from approximately 0.05 to 0.4 acres with an average parcel size of 0.15 acres. The Willow Street/Calle Willow NBD is characterized by one- to two-story buildings. Bus route No. 25, which is VTA's third most frequented line runs through the Willow Street/Calle Willow NBD, providing local service every 12 to 15 minutes on weekdays. All but six parcels in the Willow Street NBD have a Mixed Use Commercial General Plan land use designation.

Existing Building Form



Existing Uses



General Plan Land Use Designation



II. North 13th Street

The North 13th Street NBD is located along both sides of 13th Street between E. Hedding Street and Jackson Street, anchored by Backesto Park. The approximately 20.7-acre NBD is primarily comprised of small lots ranging from approximately 0.1 to 1 acre with an average parcel size of 0.2 acres, or 8,700 square feet. The North 13th Street NBD is characterized by one- to three-story buildings. Similar to the Willow Street/Calle Willow NBD, all properties in the 13th Street NBD have a Mixed Use Commercial General Plan land use designation, which currently allows for residential development.

Existing Building Form



Existing Uses



General Plan Land Use Designation

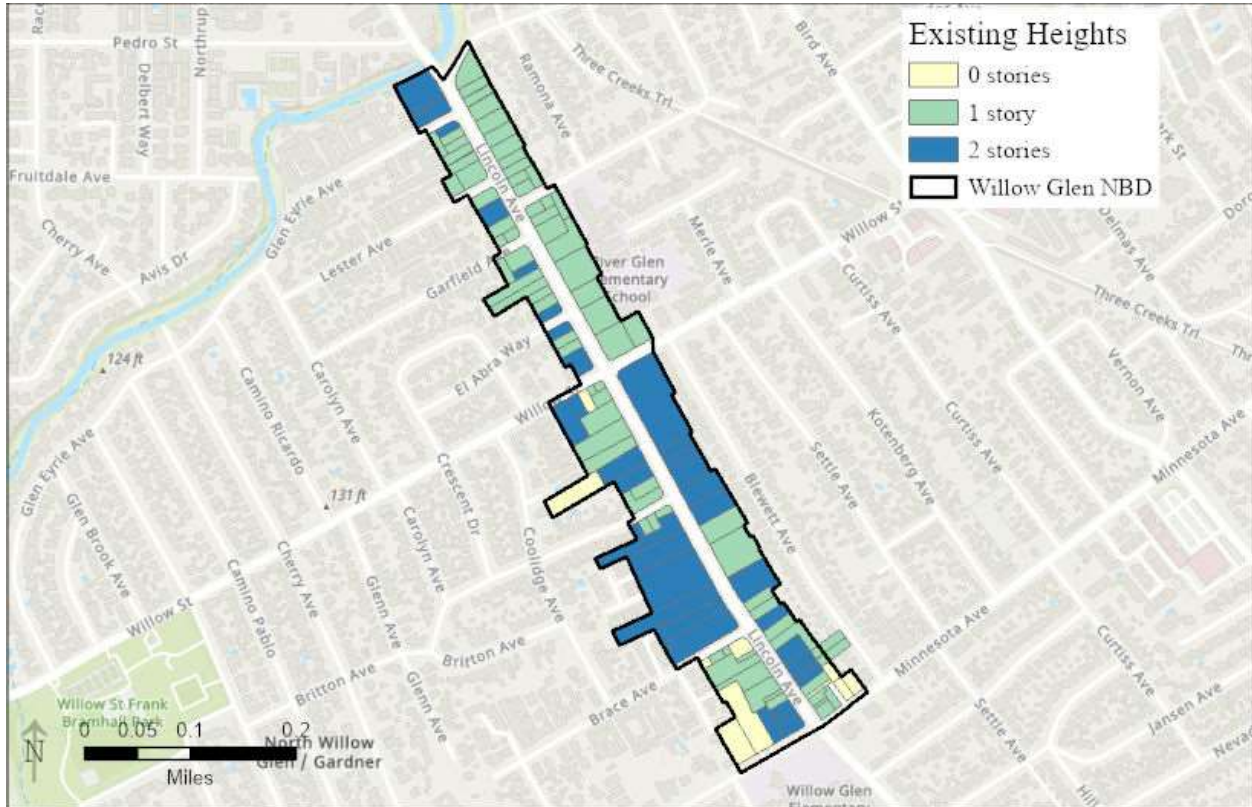


- | | | |
|-----------------------------------|-----------------------------------|-------------------------------------|
| General Plan Land Use | Open Space, Parklands and Habitat | Urban Residential |
| Mixed Use Commercial | Public/Quasi-Public | North 13th Street NBD |
| Mixed Use Neighborhood | Residential Neighborhood | Jackson-Taylor Residential Strategy |
| Neighborhood/Community Commercial | Transit Residential | |

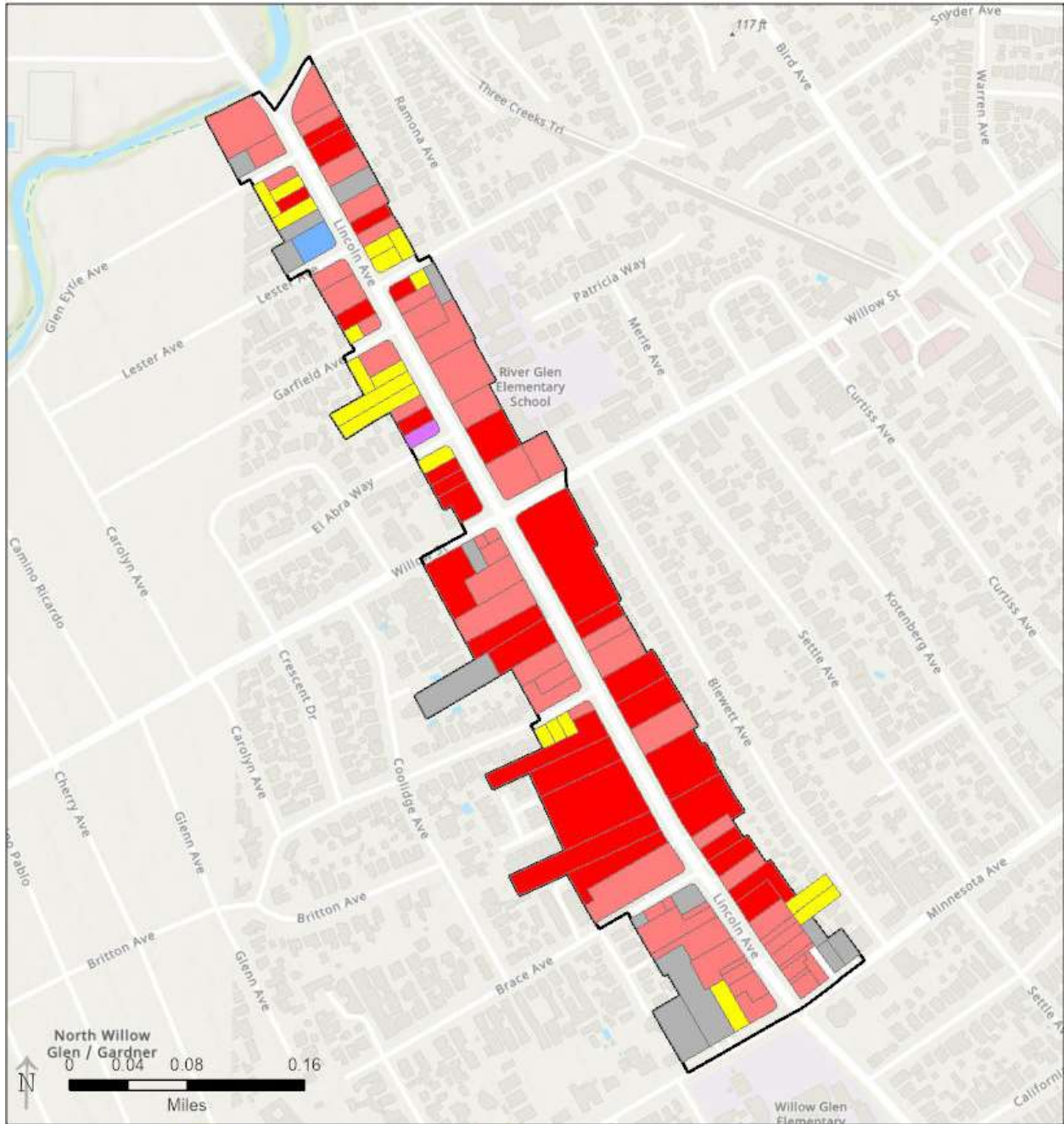
III. Willow Glen

The Willow Glen NBD is located along both sides of Lincoln Avenue between Coe Avenue and Minnesota Avenue. The NBD is approximately 45.4 acres in size and contains a range of lots sizes from approximately 0.03 to 2 acres with an average parcel size of 0.3 acres, or 13,000 square feet. The Willow Glen NBD is characterized by one- to three-story buildings. The General Plan land use designation is predominantly Neighborhood Community Commercial in the Willow Glen NBD.

Existing Building Form

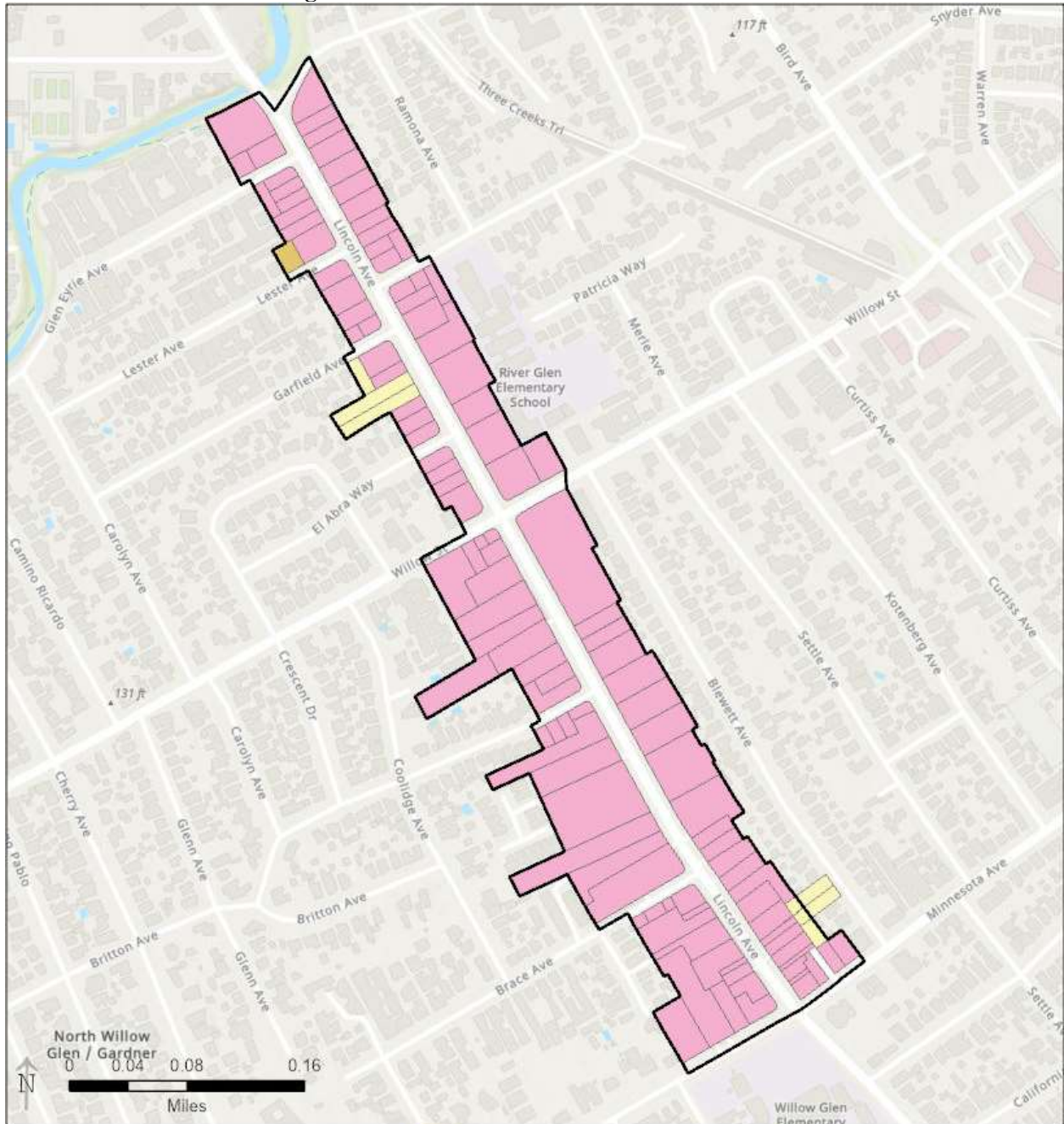


Existing Uses



Existing Uses	 Mixed Use	 Parks
 Commercial	 Residential	 Vacant/Parking Lot
 Office	 Community Center/Church	 Willow Glen NBD

General Plan Land Use Designation

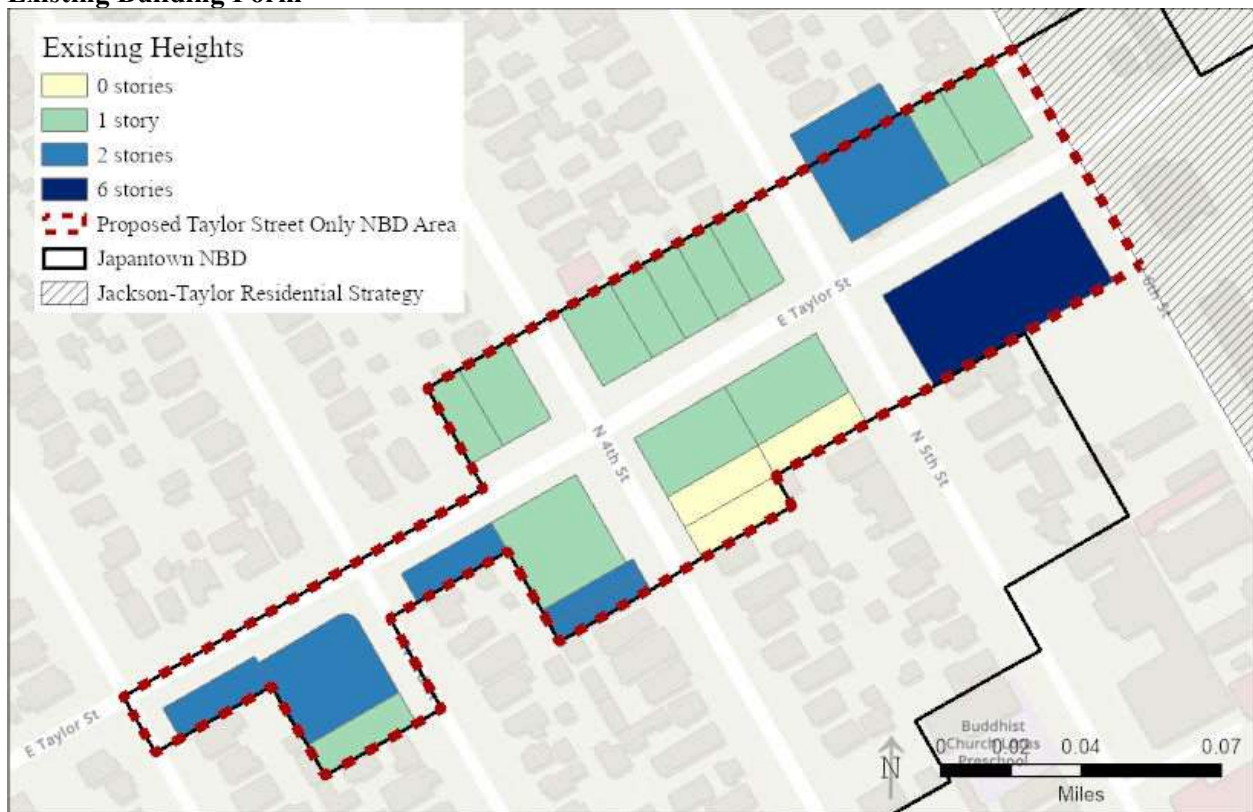


IV. Japantown

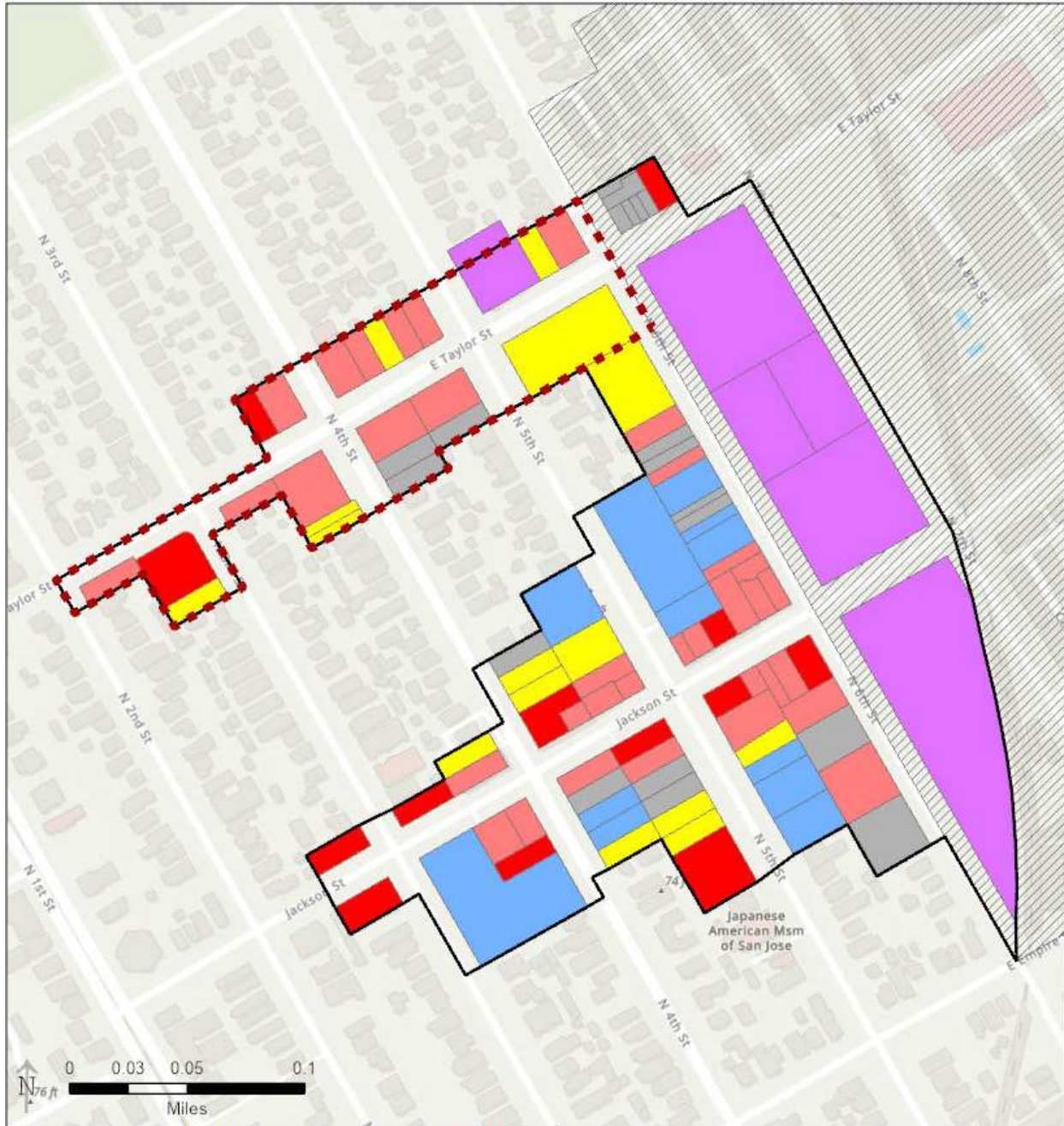
The Japantown NBD is 40.6 acres and is located just north of Downtown and is loosely bounded by the parcels north of Taylor Street to the north, N. 7th Street to the east, E. Empire Street to the south, and N. 2nd Street to the west. Japantown is characterized by a range of parcel sizes from approximately 0.03 to 3 acres with an average parcel size of 0.3 acres. The Japantown NBD boundary overlaps the Jackson-Taylor Residential Strategy area east of N. 6th Street. The Jackson-Taylor Residential Strategy area already has residential capacity and over 700 residential units have been built in the Specific Plan area since adoption of the General Plan.

Considering the historic and cultural sensitivity of Japantown and its overlay with the Jackson-Taylor Residential Strategy, staff recommends that policy changes apply only to the section of Taylor Street within the Japantown NBD. This area would include the parcels within the Japantown NBD along Taylor Street, bounded by N. 6th Street to the east and N. 2nd Street to the west (see Attachment B). In this sub-area of the Japantown NBD, parcels range from 0.15 to 0.85 acres with an average of 0.2 acres. This segment of the Japantown NBD is characterized by one- to three-story buildings with the exception of the six-story Fuji apartment building at Taylor Street and 6th Street. Additionally, VTA bus line No. 61 runs through the Japantown NBD along Taylor Street, providing local service every 12 to 15 minutes on weekdays.

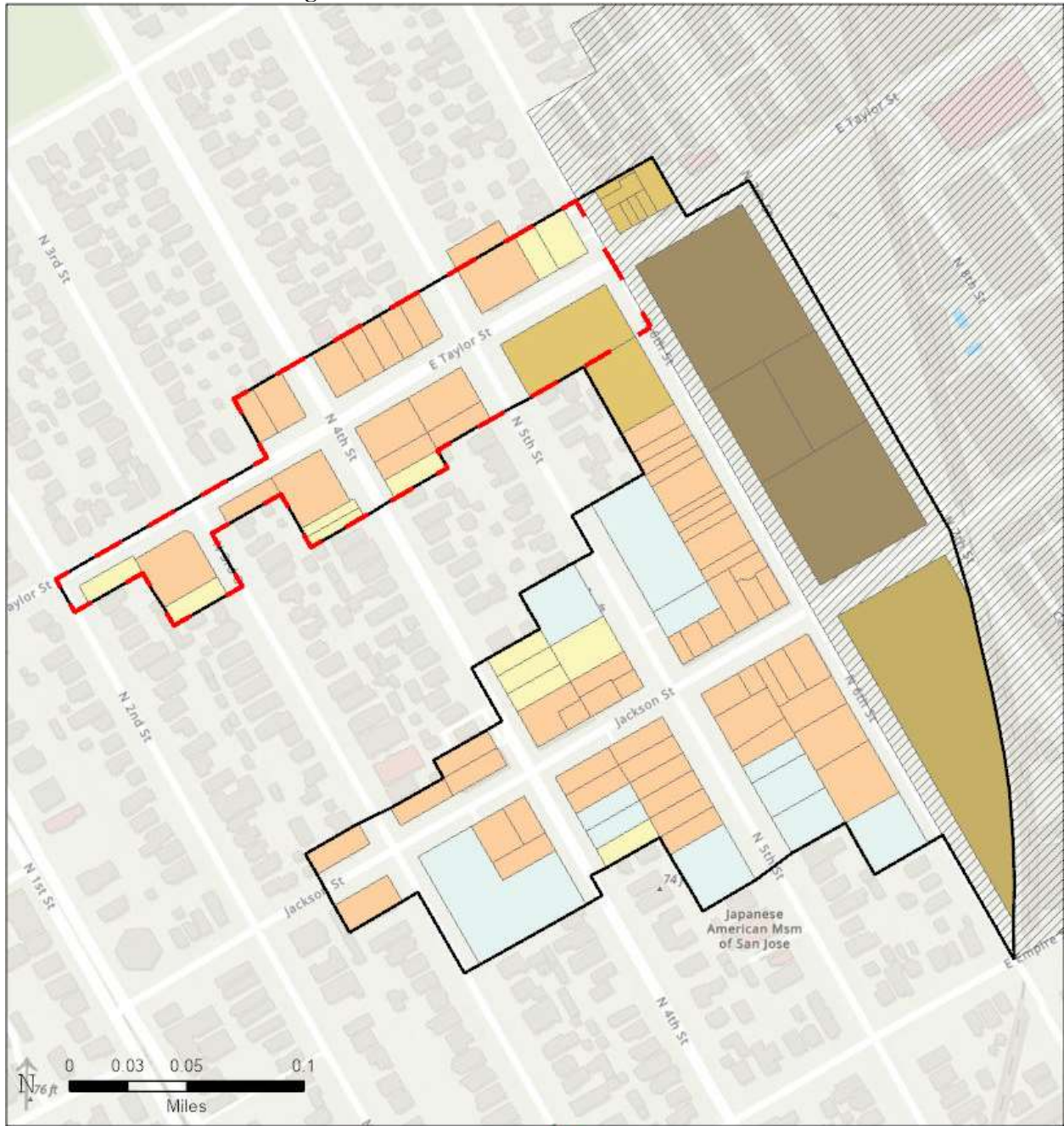
Existing Building Form



Existing Uses



General Plan Land Use Designation



- | | | |
|-----------------------------------|--------------------------|--------------------------------------|
| General Plan Land Use | Public/Quasi-Public | Proposed Taylor Street Only NBD Area |
| Mixed Use Commercial | Residential Neighborhood | Japantown NBD |
| Mixed Use Neighborhood | Transit Residential | Jackson-Taylor Residential Strategy |
| Neighborhood/Community Commercial | Urban Residential | |
| Open Space, Parklands and Habitat | | |