

## HOUSING DEPARTMENT

### Impact Analysis Report

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#### **OVERVIEW**

The Housing Department is responsible for the collection of fees related to the Rental Rights and Referrals Program (RRRP) and for the collection of Inclusionary Fees, Homebuyer Subordination Fees, and Multi-Family Fees.

The RRRP fees are collected from rental units covered by the Rent Control Ordinance and the Mobile Home Rent Control Ordinance. The fees are set at an amount to cover the estimated costs of providing the Program, which include mediation services to settle tenant-landlord disputes, information and referral services, and outreach and education services.

The City's Inclusionary Housing Policy, established in 1988, requires affordable housing units to be built in newly-constructed for-sale housing developments with greater than 10 units that are located in former Redevelopment Project Areas. In limited circumstances, developers may choose to pay an "in-lieu" fee instead of building the required affordable units in the development. Although redevelopment agencies in California have been dissolved, the relevant provisions of the California Redevelopment Law requiring housing affordability in residential construction in Redevelopment Project Areas have not been repealed. Therefore, San José continues to implement its Inclusionary Housing Policy and requires affordability in newly-constructed for-sale developments in those areas. For more information on the City's Inclusionary Housing Policy, please visit the Housing Department's website at <http://www.sanjoseca.gov/index.aspx?NID=1307>.

On January 12, 2010, the City Council adopted a city-wide inclusionary housing ordinance that required affordable housing obligations on all new for-sale developments of 20 or more units. The city-wide ordinance was scheduled to take effect on January 1, 2013; however, it was declared invalid on May 25, 2012 by the Santa Clara County Superior Court. The City successfully appealed this decision and the matter is currently before the State Supreme Court. The ordinance will not take effect or be implemented until there is a final court ruling.

Since July 2013, the Housing Department has been working with Keyser Marston Associates to determine the impact that residential development has on the need for affordable housing in San José. In October 2013, the Housing Department published an initial draft of the Residential Nexus Study (Study) and subsequently held a series of meetings to discuss the draft and obtain input from stakeholders. The Housing Department has continued working with the consultant so that all concerns raised by the stakeholders are considered. The focus of the Study will now be on rental residential development. It is anticipated that an updated Study will be ready for public review in May 2014. At that time, staff will conduct additional stakeholder outreach and anticipates returning to the City Council in fall 2014 with recommendations for establishing a housing impact fee ordinance.

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### ***SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS***

#### Existing Fees

The following fee increases for the Rental Rights and Referrals Program (RRRP) are recommended: rent-controlled apartment units (from \$7.50 to \$11.75), non-rent controlled apartment units (from \$1.00 to \$2.00), and mobile home units (from \$17.00 to \$21.00). The increases reflect two factors: 1) increase in demand for services and 2) increase in program costs. With changes in the rental market, there has been a large increase in the number of residents calling to report significant increases in their rents including space rents at mobile home parks. This has resulted in an increased demand for mediation and arbitration services.

In addition to the increase in activity levels, the costs to administer the RRRP arbitration and mediation services are expected to increase. On January 14, 2014, the City Council approved a non-personal/equipment funding increase for the Housing Department to address the increased demand for mediation and arbitration services in 2013-2014. The Department completed two Requests for Proposals (RFP) for hearing officers to conduct mediations and arbitrations. However, the results did not provide a sufficient list of candidates. Therefore, the Department will conduct a third RFP in summer 2014, in an effort to enlist the remaining amount of hearing officers needed to meet the increased demand. In the past ten years, no increase has been made to the compensation for the hearing officers. As a result of the RFP and to stay within current market

rate, a 20% compensation increase for the hearing officers is anticipated.

The cost recovery rate for the RRRP was 85.1% in 2013-2014. If no fee increases are recommended, the cost recovery rate would be 48.7% in 2014-2015. Contributing factors to this decline are the 2013-2014 increased cost of \$133,000 to address the higher than anticipated need for mediation and arbitration services that are proposed to be recovered through fee increases in 2014-2015, increased demand for services, as well as increased salary, benefits, and overhead costs. To address the increased activity and hearing officer costs in 2014-2015, an increase of \$195,000 to the non-personal/equipment budget is necessary. While this increase has been factored into the fee calculation, it was inadvertently excluded from the 2014-2015 Proposed Operating Budget. A proposal to include the increased non-personal/equipment will be brought forward as part of the 2014-2015 Proposed Operating Budget Manager's Budget Addendum process.

With the overall proposed fee increases in the Multi-Source Housing Fund Category I fees, the cost recovery rate for 2014-2015 would be 72.5%. The Administration recommends a two to three year phased-in approach to bring this program to full cost recovery. The Housing Department will continue its thorough review of the Program including staffing, activities, outreach materials, and other related documents in order to identify opportunities for program improvement. Additionally, staff will evaluate a proposal to amend the Mobilehome Rent Ordinance in order to establish a Mobilehome Rent Petition Filing Fee to defray costs of the assigned Administrative

## **HOUSING DEPARTMENT**

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### ***SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS***

#### Existing Fees (Cont'd.)

Hearing Officer for the rent petition hearing. It is anticipated that this proposal will be brought forward as part of the 2015-2016 budget process.

Recommended changes to existing fees pertaining to the management of the City's Multi-Family Affordable Housing Loan Portfolio, which was added in 2013-2014, will more accurately align the fees with staffing resources and projected activity levels. Fee increases are proposed to reflect updated salary, benefits, and overhead costs in order to maintain cost recovery levels of providing these services to its loan portfolio in the following sections: Homebuyer Subordination, Multi-Family Affordability Restriction Monitoring, Multi-Family Loan Conversion, Multi-Family Loan Origination, Multi-Family Loan Recapitalization, Multi-Family Loan Refinance, Multi-Family Loan Servicing, Multi-Family Project Owner Transfer, Multi-Family Project Restructuring, Single-Family Loan Payoff, and Supplemental Document Processing Fees.

The base hours for Multi-Family Fees are not proposed to change. For more complicated refinancing scenarios that exceed the base hours, property owners will continue to be assessed an additional per hour rate.

#### New Fee

A new County of Santa Clara Clerk Recorder's Office Fee is recommended to recover eligible costs associated with

supplemental documents filed with the County of Santa Clara. The Housing Department has a loan portfolio of over 2,100 loans. Currently, the Housing Department absorbs third party expenses associated with processing supplemental documents such as notarizations, recording fees, and filing fees. It is proposed that eligible County costs be charged to new single-family and multi-family projects at actual costs charged by the County Recorder to the City. Based on an analysis of the use of this new fee, the Administration will bring forward a revenue and cost estimate as part of the 2015-2016 budget process.

#### ***NOTIFICATION***

The Housing Department staff met with potential impacted stakeholders and held public meetings on March 20, 2014 and April 17, 2014 at the Housing and Community Development Commission. The Proposed Fees and Charges Report was released on May 2, 2014, allowing for a minimum of 10 days for public review. Public input on fee proposals will be heard by the City Council at public hearings held on Tuesday, May 13, 2014, at 7:00 p.m. and Monday, June 9, 2014, at 7:00 p.m. in the Council Chambers.

# DEPARTMENTAL FEES AND CHARGES

# HOUSING

Service	2013-2014 Adopted Fee	2013-2014 % Cost Recovery	2014-2015 Proposed Fee	2014-2015 Estimated Cost	2014-2015 Estimated Revenue		2014-2015 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
<b>LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I</b>								
<b>1. Homebuyer Subordination Fee</b>								
1 Homebuyer Subordination Fee	\$280 per transaction		\$297 per transaction					
<b>Sub-total Homebuyer Subordination Fee</b>		<b>100.0%</b>		<b>20,790</b>	<b>19,600</b>	<b>20,790</b>	<b>94.3%</b>	<b>100.0%</b>
<b>2. Multi-Family Affordability Restriction Monitoring Fee</b>								
1 Multi-Family Affordability Restriction Monitoring Fee	\$18.75/unit per year		\$19.50/unit per year					
<b>Sub-total Multi-Family Affordability Restriction Monitoring Fee</b>		<b>100.0%</b>		<b>3,900</b>	<b>3,750</b>	<b>3,900</b>	<b>96.2%</b>	<b>100.0%</b>
<b>3. Multi-Family Loan Conversion Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 16 hours		\$142/hr in excess of 16 hours					
2 City Housing Staff Time	\$94/hr in excess of 70 hours		\$110/hr in excess of 70 hours					
3 Standard Transaction	\$8,700 per transaction		\$9,900 per transaction					
<b>Sub-total Multi-Family Loan Conversion Fee</b>		<b>100.0%</b>		<b>29,700</b>	<b>26,100</b>	<b>29,700</b>	<b>87.9%</b>	<b>100.0%</b>
<b>4. Multi-Family Loan Origination Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 89 hours		\$142/hr in excess of 89 hours					
2 City Housing Staff Time	\$94/hr in excess of 205 hours		\$110/hr in excess of 205 hours					
3 Standard Transaction	\$31,000 per transaction		\$35,000 per transaction					
<b>Sub-total Multi-Family Loan Origination Fee</b>		<b>100.0%</b>		<b>70,000</b>	<b>62,000</b>	<b>70,000</b>	<b>88.6%</b>	<b>100.0%</b>
<b>5. Multi-Family Loan Recapitalization Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 21 hours		\$142/hr in excess of 21 hours					
2 City Housing Staff Time	\$94/hr in excess of 27 hours		\$110/hr in excess of 27 hours					

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Service	2013-2014 Adopted Fee	2013-2014 % Cost Recovery	2014-2015 Proposed Fee	2014-2015 Estimated Cost	2014-2015 Estimated Revenue		2014-2015 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
<b>LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I</b>								
<b>5. Multi-Family Loan Recapitalization Fee</b>								
3 Standard Transaction	\$5,300 per transaction		\$5,950 per transaction					
<b>Sub-total Multi-Family Loan Recapitalization Fee</b>		<b>100.0%</b>		<b>5,950</b>	<b>5,300</b>	<b>5,950</b>	<b>89.1%</b>	<b>100.0%</b>
<b>6. Multi-Family Loan Refinance Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 14 hours		\$142/hr in excess of 14 hours					
2 City Housing Staff Time	\$94/hr in excess of 16 hours		\$110/hr in excess of 16 hours					
3 Standard Transaction	\$3,400 per transaction		\$3,745 per transaction					
<b>Sub-total Multi-Family Loan Refinance Fee</b>		<b>100.0%</b>		<b>44,940</b>	<b>40,800</b>	<b>44,940</b>	<b>90.8%</b>	<b>100.0%</b>
<b>7. Multi-Family Loan Servicing Fee</b>								
1 Multi-Family Loan Servicing Fee	\$18.75/unit per year		\$19.50/unit per year					
<b>Sub-total Multi-Family Loan Servicing Fee</b>		<b>100.0%</b>		<b>3,900</b>	<b>3,750</b>	<b>3,900</b>	<b>96.2%</b>	<b>100.0%</b>
<b>8. Multi-Family Project Owner Transfer Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 24 hours		\$142/hr in excess of 24 hours					
2 City Housing Staff Time	\$94/hr in excess of 33 hours		\$110/hr in excess of 33 hours					
3 Standard Transaction	\$6,300 per transaction		\$7,000 per transaction					
<b>Sub-total Multi-Family Project Owner Transfer Fee</b>		<b>100.0%</b>		<b>21,000</b>	<b>18,900</b>	<b>21,000</b>	<b>90.0%</b>	<b>100.0%</b>
<b>9. Multi-Family Project Restructuring Fee</b>								
1 City Attorney Staff Time	\$133/hr in excess of 20 hours		\$142/hr in excess of 20 hours					
2 City Housing Staff Time	\$94/hr in excess of 21 hours		\$110/hr in excess of 21 hours					

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Service	2013-2014 Adopted Fee	2013-2014 % Cost Recovery	2014-2015 Proposed Fee	2014-2015 Estimated Cost	2014-2015 Estimated Revenue		2014-2015 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
<b>LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I</b>								
<b>9. Multi-Family Project Restructuring Fee</b>								
3 Standard Transaction	\$4,600 per transaction		\$5,150 per transaction					
<b>Sub-total Multi-Family Project Restructuring Fee</b>		<b>100.0%</b>		<b>10,300</b>	<b>9,200</b>	<b>10,300</b>	<b>89.3%</b>	<b>100.0%</b>
<b>10. Single-Family Loan Payoff Fee</b>								
1 Short Sale Loan Payoff Fee	\$287 per transaction		\$297 per transaction					
2 Single-Family Loan Payoff Fee	\$144 per transaction		\$150 per transaction					
<b>Sub-total Single-Family Loan Payoff Fee</b>		<b>100.0%</b>		<b>8,970</b>	<b>8,630</b>	<b>8,970</b>	<b>96.2%</b>	<b>100.0%</b>
<b>11. Supplemental Document Processing Fee</b>								
1 City Attorney Staff Time	\$133/hr		\$142/hr					
2 City Housing Staff Time	\$94/hr		\$110/hr					
3 County of Santa Clara Clerk Recorder's Office Fees			Actual costs charged by the County Recorder to the City					
<b>Sub-total Supplemental Document Processing Fee</b>		<b>100.0%</b>		<b>7,170</b>	<b>6,535</b>	<b>7,170</b>	<b>91.1%</b>	<b>100.0%</b>
<b>SUB-TOTAL LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I</b>		<b>100.0%</b>		<b>226,620</b>	<b>204,565</b>	<b>226,620</b>	<b>90.3%</b>	<b>100.0%</b>
<b>MULTI-SOURCE HOUSING FD - CATEGORY I</b>								
<b>1. Rental Rights and Referrals Program</b>								
1 Apartment Unit	\$7.50 annually	78.3%	\$11.75 annually	709,803	349,253	547,162	49.2%	77.1%
2 Mobile Home Unit	\$17.00 annually	89.2%	\$21.00 annually	342,067	183,192	226,296	53.6%	66.2%

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Service	2013-2014 Adopted Fee	2013-2014 % Cost Recovery	2014-2015 Proposed Fee	2014-2015 Estimated Cost	2014-2015 Estimated Revenue		2014-2015 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
<b>MULTI-SOURCE HOUSING FD - CATEGORY I</b>								
<b>1. Rental Rights and Referrals Program</b>								
3 Non-Rent-Controlled Apartment Units Note: Formerly Titled "Non-Rent-Controlled Apartments"	\$1.00 annually	156.9%	\$2.00 annually	119,857	37,885	75,770	31.6%	63.2%
<b>Sub-total Rental Rights and Referrals Program</b>		<b>85.1%</b>		<b>1,171,727</b>	<b>570,330</b>	<b>849,228</b>	<b>48.7%</b>	<b>72.5%</b>
<b>SUB-TOTAL MULTI-SOURCE HOUSING FD - CATEGORY I</b>		<b>85.1%</b>		<b>1,171,727</b>	<b>570,330</b>	<b>849,228</b>	<b>48.7%</b>	<b>72.5%</b>

## MULTI-SOURCE HOUSING FD - CATEGORY II

### 1. Inclusionary Fees

1 For-Sale - High Rise Not in Downtown Core	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$200,200		No Change					
2 For-Sale - High Rise in Downtown High-Rise Incentive Area	\$8.50 per square foot of total living space in entire development. Maximum per affordable unit: \$65,000		No Change					
3 For-Sale - Low-Rise Condominium/Stacked Flat Units	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$90,000		No Change					
4 For-Sale - Single-Family Detached Units	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$200,000		No Change					
5 For-Sale - Townhouse/Row-House Units	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$120,000		No Change					

# DEPARTMENTAL FEES AND CHARGES

# HOUSING

Service	2013-2014 Adopted Fee	2013-2014 % Cost Recovery	2014-2015 Proposed Fee	2014-2015 Estimated Cost	2014-2015 Estimated Revenue		2014-2015 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
<b>MULTI-SOURCE HOUSING FD - CATEGORY II</b>								
<b>1. Inclusionary Fees</b>								
6 Rental Units	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$85,500		No Change					
<b>2. Rental Mediation Penalty: Apartments</b>								
1 30 days past due = 25% of principal	Penalties and interest assessed for delinquent permit payment		No Change					
2 60 days past due = 50% of principal	Penalties and interest assessed for delinquent permit payment		No Change					
<b>3. Rental Mediation Penalty: Mobile Homes</b>								
1 30 days past due = 10% of the amount of the fee	Penalties and interest assessed for delinquent permit payment		No Change					
<b>SUB-TOTAL MULTI-SOURCE HOUSING FD - CATEGORY II</b>								
<b>TOTAL DEPARTMENT - NON-GENERAL FUND</b>				<b>1,398,347</b>	<b>774,895</b>	<b>1,075,848</b>	<b>55.4%</b>	<b>76.9%</b>
<b>TOTAL DEPARTMENT - Category I</b>				<b>1,398,347</b>	<b>774,895</b>	<b>1,075,848</b>	<b>55.4%</b>	<b>76.9%</b>
<b>TOTAL DEPARTMENT - Category II</b>								
<b>TOTAL DEPARTMENT</b>				<b>1,398,347</b>	<b>774,895</b>	<b>1,075,848</b>	<b>55.4%</b>	<b>76.9%</b>