

**ATTACHMENT A-3.1
INCLUSIONARY HOUSING ORDINANCE (IHO) COMPLIANCE OPTIONS:
ILLUSTRATIVE CALCULATION OF THE FOR-SALE IN-LIEU FEE
COMPLIANCE OPTION FOR FY2020-2021
(FOR-SALE)**

This attachment to the Guidelines describes the method utilized in calculating the For-Sale In-Lieu Fee Compliance Option illustrates the calculations involved in that process. The figures below reflect the In-Lieu fee for fiscal year 2020- 2021 (July 1, 2020 to June 30, 2021).

I. Calculation of the Annual 110% Income Limit for a 2.5 Person Household

$$\begin{aligned} & \$105,100 \quad [100\% \text{ of Area Median Income (AMI) for 2 person household}] \\ & +\$118,250 \quad [100\% \text{ of AMI for 3 person household}] \\ & \underline{\$223,350} \quad [\text{Sum and divide by two}] \\ & \quad \quad \quad 2 \\ & = \$111,675 \quad [100\% \text{ of AMI for 2.5 person household}] \\ & \quad \quad \quad \times 110\% \quad [\text{Multiple by 110\%} \\ & \quad \quad \quad \quad \quad \quad \quad \text{to add 10\% to reflect the difference between 100\% AMI and 110\% AMI}] \\ & = \$122,843 \quad [110\% \text{ of AMI for 2.5 person household}] \end{aligned}$$

This number will be used for FY 2020-21 in-lieu fee calculations.

II. Calculation of the Annual and Monthly 110% Affordable Payment

$$\begin{aligned} & \$122,843 \quad [110\% \text{ of AMI for 2.5 person household}] \\ & \underline{\quad \quad \quad \times .35} \quad [\text{Affordable house costs shall not exceed 35\% of 110\% AMI}] \\ & \quad \quad \quad \$42,995 \\ & \underline{\text{divided by 12}} \quad [\text{To calculate the maximum monthly affordable payment}] \\ & = \$3,583 \quad [\text{Maximum monthly affordable payment}] \end{aligned}$$

III. Assumptions to Calculate the Affordable Housing Cost for the For-Sale In-Lieu Fee

The following elements of the affordable housing cost calculation will be assumed each year, based upon relevant data pertaining to each. These elements will be determined by referencing industry standard sources or the Housing Department's generally established underwriting criteria. For fiscal year, 2020-21, the Housing Department has determined the following values:

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ITEM	VALUE	RATIONALE / SOURCE OF DATA	DATE SET
Interest Rate	3.72%	Freddie Mac Primary Mortgage Market Survey (PMMS) http://www.freddiemac.com/pmms/pmms_archives.html	Annually, first week of January
Down Payment	5%	City underwriting criteria	NA
Property Tax/Special Assessments	1.25%	City underwriting criteria	NA
Homeowner Associations Dues (HOA)	\$375	Weighted average of monthly HOA dues for the most recent five for sale housing developments subject to the City's IH Policy/Ordinance	Annually, first week of January
Utilities	\$75	Weighted average of monthly estimated utility costs per unit for the most recent five for sale housing development subject to the City's IH Policy/Ordinance	Annually, first week of January
Hazard Insurance	\$0	IH Ordinance emphasizes attached housing. Communities will likely have a monthly HOA, which will cover the Hazard Insurance	NA
Mortgage Insurance Premium (PMI)	\$250	Federal Housing Administration (FHA) http://www.fha.com/fha_requirements_mortgage_insurance (According to 80 Basis Points)	Annually, first week of January
Maintenance & Repair Allowance	\$75	City underwriting criteria	NA

IV. Determination of Purchase Related Costs & Affordable Monthly Mortgage Payment

(The figures used in this section are based upon the above chart)

\$3,583 [Maximum monthly affordable payment] less:

[-] \$400 [Property taxes and assessments (per month) 1.25%]
 [-] \$375 [Homeowner's association dues (per month) \$375]
 [-] \$75 [Utility allowance (per month)]
 [-] \$0 [Hazard insurance premiums (per month) 0%]
 [-] \$250 [Mortgage insurance premiums (per month) 80 BPS]
 [-] \$75 [Property maintenance and repair (per month) \$75]

[-] \$1,175 [Subtract the sum of all housing related expenses]

= **\$2,408** [Remaining amount for maximum monthly mortgage payment]

V. Determination of Affordable Housing Cost (aka Maximum Sales Price)

The maximum sales price is calculated by adding the maximum monthly mortgage payment amount to the assumed down payment that will be contributed by the borrower. The maximum mortgage amount will be based on a fixed rate, 5% down, fully amortizing, widely available owner occupied loan, and the above calculated maximum monthly mortgage payment allowable. The calculation functions as follows:

$$\begin{aligned}
 & 3.72\% \quad [\text{Interest rate for loan term of 30 years}] \\
 & \$2,408 \quad [\text{Maximum monthly mortgage payment}] \text{ allows for a} \\
 & \$521,853 \quad [\text{Maximum mortgage amount}] \\
 & \underline{\$27,466} \quad [\text{Add assumed down payment of 5\%}] \\
 & = \mathbf{\$549,319} \quad [\text{Maximum affordable sales price}]
 \end{aligned}$$

This amount is known as the “Affordable Housing Cost” for the purpose of determining the for-sale in-lieu fee amount for FY 2020-21.

VI. Calculation of the Annual Median Sales Price

Calculate the annual median sales price of all attached market rate units in San Jose for the preceding 36-month period that ended in December of the prior year.

- 1) First, utilize information provided by the Santa Clara County Association of Realtors (<http://www.sccaor.com/housing-statistics>) to determine the annual median sales price of an attached market rate unit (Condos and Townhomes in the listing) for the most recent completed year and for the two prior years.
- 2) Utilizing the median sale price for each 12-month period, the Housing Department will calculate the median sale price over the past 36-month period.
- 3) Below is the current estimate based on sales from calendar years 2017-2019:

MEDIAN SALES PRICE CALCULATION			
Year	# of Sales	Median Price	% total (2017-19) transactions
Total 2017	2,499	\$637,000	38%
Total 2018	2,066	\$770,000	32%
Total 2019	1,976	\$720,000	30%
Totals	6,541	\$704,082	100%

This amount is known as the “Median Sales Price Calculation” for the purpose of determining the for-sale in-lieu fee amount for FY 2020-21.

VII. 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 2020-21, the Housing Department will collect an administrative fee in the form of an application fee of \$3,042. Therefore, the In-Lieu Fee described in this document does not currently include an administrative fee in the calculation.

VIII. Calculation of the For-Sale In-Lieu Fee

Calculate the For-Sale In-Lieu Fee by subtracting the Maximum Affordable Price (Step V) from Median Sales Price Calculation (Step VI). The number of units for which the In-Lieu Fee shall be collected on twenty percent (20%) of the total units in the Residential Development.

Median Sales Price Calculation (Section VI):	\$704,082
	-
Affordable Housing Cost (Section V):	<u>\$549,319</u>
	=
Difference:	\$154,763
	+
In-Lieu Fee Additional Charges:	<u>\$ 0</u>
[Administrative Fee]	+
[2% Increase Due to Delay]	<u>\$3,095</u>
	=
In-lieu fee Per affordable unit	\$157,858

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>\$ 157,858</u>
	=
In-Lieu fee for a 100-unit Residential Development:	\$ 3,157,160

IX. Proposed Revisions to the Inclusionary Housing Ordinance

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

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apartments. The goal is to provide a broader range of housing options for City residents. Two potential revisions include changes to the in-lieu fee compliance option including restructuring the fee to apply the fee on a square foot basis and to develop geographic market areas to phase in the in-lieu fee adjustments over time.

Please download the following [memorandum](#) that summarizes the proposed changes. The proposed changes to the IHO will be considered by the City Council in 2020. To view the minutes from the November 5th meeting, [please go to this link](#) and a [briefing sheet](#) that explains the proposed changes. When City Council considers these proposed changes, the in-lieu fee will be updated. The current staff recommendation is to restructure the in-lieu fee option to apply the fee on a square foot basis and to vary by geographic market areas. As a result, this For-Sale In-Lieu Fee Calculation will likely be updated in late 2020.