



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: AFFORDABLE HOUSING
IMPACT FEE FUND ANNUAL
REPORT FOR FY 2017-2018

DATE: December 5, 2018

Approved:

Date

12-6-18

RECOMMENDATION

Accept this Fiscal Year 2017-2018 Annual Report prepared in accordance with the Mitigation Fee Act (Government Code section 66000 *et seq.*) on the status of the City's Affordable Housing Impact Fee ("AHIF").

OUTCOME

Accepting this memorandum with the attached Annual Report of required information will allow the City of San José to continue to use Affordable Housing Impact Fee funds to fully or partially fund affordable housing projects and programs. This memorandum provides the City Council with information on the AHIF collected in FY 2017-2018.

BACKGROUND

The Mitigation Fee Act

The Mitigation Fee Act ("The Act") requires public agencies to account for and make specific findings regarding mitigation fees collected by an agency as a condition of development approval. The Act regulates how public agencies may establish, collect, maintain, and spend impact fees imposed on developers. The Act also requires that the local or lead agency review and make available to the public an annual report that accounts for the mitigation fees held by the agency. The City is required to make available to the public an annual report within 180 days after the last day of each fiscal year¹. In accordance with this requirement, staff is presenting the following annual impact fee report for the Fiscal Year (FY) ending June 30, 2018.

¹ California Government Code Section 66006(b)(1).

Affordable Housing Impact Fee

On November 18, 2014, the City Council adopted the Housing Impact Fee Resolution establishing the AHIF program. Under the Housing Impact Fee Resolution, Developers of new rental housing developments of three (3) to nineteen (19)² apartments are required to pay an impact fee per net rentable square foot. Revenue from the AHIF is intended to be used to increase the supply of affordable housing for extremely low-, very low-, low- and moderate-income households including acquisition, financing, construction, and development of residential units and any necessary and reasonable costs for administering the AHIF fund. The Housing Impact Fee Resolution included an expenditure plan. That expenditure plan provided a list of proposed affordable housing projects as examples of the types of rental housing developments that could be funded with Housing Impact Fee revenues. The Housing Department has issued a Notice of Funding Availability (NOFA) and is in the process of ranking affordable housing developments for future funding. Upon completion of environmental review, each affordable housing project will be brought to City Council for a funding commitment, which include AHIF funds. The initial list of proposed affordable housing projects listed in the Housing Impact Fee Resolution will be updated to reflect which projects will be receiving AHIF funds.

As required by law, the AHIF is segregated from the General Fund and accounted for in special revenue funds, which earn interest. These funds, including interest, must be held for the purpose for which the fees are collected (Section 66001).³ The revenues for the AHIF funds are held in the Inclusionary In-Lieu Policy Fee Reserve in the Multi-Source Housing Fund. As part of the 2019-2020 Budget process the City will separately budget and account for the Housing Impact Fees.

ANALYSIS

The City's AHIF program is consistent with the State's Mitigation Fee Act (Government Code Section 66000 *et seq*)⁴. The annual report for FY 2017-2018 is as follows:

A. A brief description of the type of fee in the account or fund.

The City adopted the housing impact fee to address the increased need for affordable housing connected with the development of new market rate residential rental units. A Nexus Study prepared by Keyser Marston Associates (KMA) established a reasonable relationship between the need for affordable housing and new, market-rate rental residential development. This occurs because new market-rate residential rental development leads to a net increase in new and the increase in goods and services required by these new residents leads to an increase in job creation in the City. These include service and retail sector jobs (e.g., teachers, restaurant workers, pet care workers, maintenance workers, etc.) with wages that are too low to afford market-rate rental apartments. This creates a demand for new housing

² At its adoption, the AHIF applied to new rental housing developments with three or more apartments. The unit cap adjusted due to State legislation (Assembly Bill 1505) and City Council action to activate the Inclusionary Housing Ordinance to apply towards rental developments of 20 or more units, effective January 1, 2018.

³ Unless otherwise specified, all references are to the California Government Code.

⁴ California Government Code Section 66006(b)(2).

that is affordable to extremely low-, very low-, low-, and moderate-income households, which an affordable housing impact fee would be used to help provide.

Additionally, the City's General Plan includes goals and the provision of affordable moderate income housing. This may include either moderate income rental housing and purchase assistance programs for starter housing. City subsidies for moderate-income housing likely will be in the form of down-payment assistance loans to first-time homebuyers for the purchase of existing single-family homes, townhouses, and condominiums in San Jose, although grants for low to moderate income self-sufficiency housing programs may also be funded. Such loans and grants will require the beneficiary to record an affordability restriction for the benefit of and enforceable by the City. Currently the City is focused on providing rental housing that is affordable. As more AHIF funds are accumulated, a portion of AHIF funds will be set aside to focus on moderate home ownership programs.

B. The amount of the fee.

The initial fee at its adoption was \$17 per each livable square foot of rentable space built within the residential development. Each year the AHIF per square foot increases annually by 2.4% each on July 1. The AHIF during the reporting period was \$17.41 per square foot (FY 2017-2018). The current fee is \$17.83 per square foot. See **Table B** which summarizes the AHIF rate schedule.

Table B. Affordable Housing Impact Fee Rate Schedule

AHIF	Fiscal Year	AHIF per Sq Ft
Original fee	July 1, 2016 - June 30, 2017	\$17.00
Fee during reporting period	July 1, 2017 - June 30, 2018	\$17.41
Current fee	July 1, 2018 - June 30, 2019	\$17.83

C. The beginning and ending balance of the account or fund.

On July 1, 2017, the AHIF fund balance totaled: zero dollars (\$0).

On June 30, 2018, the AHIF fund balance totaled: \$231,132.28.

D. The amount of the fees collected and the interest earned.

During the reporting period (July 1, 2017 – June 30, 2018) one project submitted its AHIF payment:

FY	Project	Council District and Location	Impact Fee Paid	Interest Earned	Total
2017-2018	Ohlone Block B	CD6: Auzerais and Sunol	\$229,586.25	\$1,546.03	\$231,132.28

E. An identification of each public improvement on which fees were expended and the amount of the expenditures on each improvement, including the total percentage of the cost of the public improvement that was funded with fees.

Revenue from the proposed Housing Impact Fee is intended to be used to increase the supply of affordable housing for extremely low-, very low-, low- and moderate-income households (Housing Impact Fee Program). Funding may be used towards acquisition, financing, construction, and development of Housing Facilities and any necessary and reasonable costs for administering the Housing Impact Fee Fund. This funding will help address demand from workers in jobs created by the increased demand for goods and services resulting from the increased City population occupying new market-rate rental housing developments.

To date no expenditures have been made from the Housing Impact Fee Fund. The Housing Department has issued a NOFA for \$100 million, stating the City's intent to fund affordable housing developments that meet the City's priorities. These AHIF funds are included in this NOFA. Once the NOFA process concludes, the projects listed in the Housing Impact Fee Resolution will be updated to reflect which projects will receive AHIF funds.

F. An identification of an approximate date by which the construction of the public improvement will commence if the local agency determines that sufficient funds have been collected to complete financing on an incomplete public improvement, as identified in paragraph (2) of subdivision (a) of Section 66001, and the public improvement remains incomplete.

To date no expenditures have been spent from the AHIF Fund. The current NOFA that will distribute funds including the AHIF funds collected in FY 2017-2018 require projects to initiate their project within the next 18 months. This is in compliance with the Mitigation Fee Act and the Housing Impact Fee Resolution which states that the City has five years from its collection to spend the AHIF funds.

G. A description of each interfund transfer or loan made from the account or fund, including the public improvement on which the transferred or loaned fees will be expended, and, in the case of an interfund loan, the date on which the loan will be repaid, and the rate of interest that the account or fund will receive on the loan.

In FY 2017-2018, no fees were transferred and no loans have been made from the AHIF fund.

H. The amount of refunds made pursuant to subdivision (e) of Section 66001 and any allocations pursuant to subdivision (f) of Section 66001.

In FY 2017-2018, no refunds were made from the AHIF fund.

EVALUATION AND FOLLOW-UP

This item will be reported annually to the City Council. The next report (FY 2018-2019) will be presented to Council in fall 2019.

POLICY ALTERNATIVES

There are no policy alternatives as this report is required under the Mitigation Fee Act.

PUBLIC OUTREACH

This report will be made available to the public on December 7, 2018, in hard copy in the City Clerk's office, and on the City of San José website, prior to the City Council meeting scheduled for December 18, 2018.

COORDINATION

This report has been coordinated with memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

An executive summary of this report was presented to the Housing and Community Development Commission (HCDC) on November 8, 2018. The Commission did not have questions about the report.

FISCAL/POLICY ALIGNMENT

Accepting the report of required information will allow the City of San José to comply with State law and continue the use of AHIF funds to partially fund affordable housing projects.

The AHIF Program implements several City policy objectives that are articulated in the Envision San José 2040 General Plan. See **Attachment A** for a list of the General Plan Policies.

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CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/

JACKY MORALES-FERRAND

Director, Housing Department

For questions, please contact Amy Chen, Senior Development Officer at (408) 975-4489.

Attachment A
General Plan Policies

- H-1.2 Facilitate the provision of housing sites and structures across locations, types, price, and status as rental or ownership that responds to the needs of all economic and demographic segments of the community, including seniors, families, the homeless, and individuals with special needs.
- H-1.6 Foster the production of housing to serve the “starter” housing market by leveraging financial resources such as purchasing assistance programs, and by encouraging market-rate building typologies that service the “starter” housing market.
- H-1.9 Facilitate the development of housing to meet San José’s fair share of the County’s and region’s housing needs.
- H-1.10 Facilitate housing that is affordable to those employed in population-serving, business-support, and driving industries.
- H-2.0 Preserve and improve San José’s existing affordable housing stock and increase its supply such that fifteen percent (15%) of all new housing stock developed is affordable to low-,very low-, and extremely low-income households.
- H-2.1 Facilitate the production of extremely low-, very low-, low-and moderate-income housing by maximizing use of appropriate policies and financial resources at the federal, state, and local levels, and various other programs.
- H-2.8 Coordinate and implement housing policies and goals contained in the City’s Consolidated Plan, and its 5-Year Investment Plan.
- H-2.11 Seek permanent sources of affordable housing funds.
- H-3.3 Situate housing in an environment that promotes the health, safety, and well-being of the occupants, and is close to services and amenities.
- H-4.2 Minimize housing’s contribution to greenhouse gas emissions, and locate housing consistent with our City’s land use and transportation goals and policies to reduce vehicle miles traveled and auto dependency.