

HOUSING DEPARTMENT

Impact Analysis Report

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, Rental Mediation Penalty 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 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Law requiring housing affordability in residential construction in Redevelopment Project Areas have not been repealed.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 require 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 is appealing this decision and the ordinance will not take effect or be implemented until there is a final court ruling.

SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS

Existing Fees

In order to maintain full cost recovery for the RRRP, a one-time use of \$93,000 from the Reserve for Rental Rights and Referrals and fee increases for rent-controlled apartments (from \$6.50 to \$7.50) and mobile home units (from \$16.00 to \$17.00) is included. With the one-time use of the reserve, the estimated remaining balance in the Reserve for Rental Rights and Referrals is \$125,000 which reflects the program savings from prior years. The increase in program costs reflects changes in the housing market and in mobile home park management which resulted in additional need for services by staff and consultants. 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 as well as work to combine the advisory commission with the other Housing commission.

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SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS

Existing Fees (Cont'd.)

Recommended changes to existing fees pertaining to the management of the City's Multi-Family Affordable Housing Loan Portfolio will more accurately align the cost recovery level of the fees with staffing needs and activity levels. Additionally, in prior years, these services were primarily funded by loan payments and low and moderate income housing funds. As a result of the dissolution of the former Redevelopment Agency of the City of San José and the loss of the low and moderate income housing funds, the Housing Department is proposing fee increases to fully recover the costs of providing these services to its loan portfolio. The Multi-Family Project Owner Transfer Fee is proposed to change from the flat rate of \$1,275 per transaction to a base fee of \$6,300 per transaction. The base fee covers 57 hours of combined Housing (33 hours) and City Attorney (24 hours) staff time, which more accurately reflects the time associated with working on a typical ownership transfer. Additionally, this fee is assessed on projects that have bonds issued by the City and require ownership structure changes. More complicated ownership structure changes that exceed the 57 base hours will be assessed an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time. The Multi-Family Loan Refinance Fee (formerly named the Multi-Family Loan Payoff Fee) recovers the costs of processing requests from multi-family affordable housing owners who are refinancing a loan and requesting the City to subordinate its loan to the new loan. The fee is proposed to increase from \$368 per standard transaction to \$3,400

per standard transaction to more accurately reflect the time associated with working on a typical transaction. The base fee covers 30 hours of combined Housing (16 hours) and City Attorney (14 hours) staff time. For more complicated refinancing scenarios that exceed the base hours, the property owners will be assessed an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time.

The per hour rate for both Housing and City Attorney staff time increased from \$92 per hour for Housing staff and \$83 per hour for City Attorney staff in 2012-2013 to \$94 per hour for Housing staff and \$133 per hour for City Attorney staff respectively. The proposed changes reflect the actual costs for the positions that perform these functions.

There are no proposed fee changes to the existing Inclusionary in-lieu fees, the Homebuyer Subordination Fee, or the Single-Family Loan Payoff fees.

New Fees

The Housing Department has a multi-family loan portfolio of over 180 loans, with a value of \$750 million. These loans need to be reviewed annually to ensure that the owners are complying with the City's loan and affordability requirements. In prior years, these services were primarily funded by loan payments and low and moderate income housing funds. As a result of the dissolution of the former Redevelopment Agency of the City of San José and the loss of the low and moderate income housing funds, the Housing Department is proposing new fees to fully recover the costs of providing these services to its loan portfolio. It is estimated that the new fees will generate approximately

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SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS

New Fees (Cont'd.)

\$164,000 in revenues in the Low and Moderate Income Housing Asset Fund. The following are the new proposed fees:

- Multi-Family Affordability Restriction Monitoring Fee – The proposed fee of \$18.75 per unit per year will recover costs associated with the annual review of the developer's tenant's income and rents for conformity with the City's affordability requirements.
- Multi-Family Loan Conversion Fee – This proposed fee will recover costs associated with converting the construction loan to a permanent loan. For each standard transaction, the fee is \$8,700 which includes 70 hours of Housing staff time and 16 hours of City Attorney staff time. For more complicated loan conversions that exceed the base hours, an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time will be charged. The fee will be assessed at loan closing.
- Multi-Family Loan Origination Fee – This proposed fee will recover costs associated with processing and underwriting loans from the time of application submittal to loan closing. For each standard transaction, the fee is \$31,000 which includes 205 hours of Housing staff time and 89 hours of City Attorney staff time. For more complicated loans that exceed the base hours, an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time will be charged. The fee will be assessed at loan closing.
- Multi-Family Loan Recapitalization Fee – This proposed fee will recover costs associated with the extensive review of the new financing structure for a project where affordable housing project owners are going through a tax credit re-syndication. For each standard transaction, the fee is \$5,300 which includes 27 hours of Housing staff time and 21 hours of City Attorney staff time. For more complicated loans that exceed the base hours, an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time will be charged.
- Multi-Family Loan Servicing Fee – The proposed fee of \$18.75 per unit per year will recover costs associated with the annual review of the multi-family housing development's operating budget and financial statements.
- Multi-Family Project Restructuring Fee – This proposed fee will recover costs associated with the refinancing of the property and requesting a change in the City's existing loan or bond terms. For each standard transaction, the fee is \$4,600 which includes 21 hours of Housing staff time and 20 hours of City Attorney staff time. For more complicated loan restructuring that exceed the base hours, an additional \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time will be charged. The fee will be assessed at loan closing.
- Supplemental Document Processing Fee – This fee will recover costs associated with requests from single family and multi-family projects asking the City to make changes to their loan documents that are not covered

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SUMMARY AND IMPACT OF PROPOSED FEE REVISIONS

New Fees (Cont'd.)

under any existing fees. This fee will recover the time associated with researching, modifying, and recording the revised loan documents. The proposed fees are \$94 per hour of Housing staff time and \$133 per hour of City Attorney staff time. City staff will provide customers with an estimated amount of time, and the customer can choose to procure the service or not.

NOTIFICATION

The Housing Department staff met with potential impacted stakeholders on April 19, 2013 and scheduled a Developer Roundtable meeting on May 1, 2013. The Proposed Fees and Charges Report was released on May 3, 2013, 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 14, 2013, at 1:30 p.m. and Monday, June 10, 2013, at 7:00 p.m. in the Council Chambers.

DEPARTMENTAL FEES AND CHARGES

HOUSING

Service	2012-2013 Adopted Fee	2012-2013 % Cost Recovery	2013-2014 Proposed Fee	2013-2014 Estimated Cost	2013-2014 Estimated Revenue		2013-2014 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I								
1. Homebuyer Subordination Fee								
1 Homebuyer Subordination Fee	\$280 per transaction		No Change					
Sub-total Homebuyer Subordination Fee		100.0%		19,600	4,200	19,600	21.4%	100.0%
2. Multi-Family Affordability Restriction Monitoring Fee								
1 Multi-Family Affordability Restriction Monitoring Fee			\$18.75/unit per year					
Sub-total Multi-Family Affordability Restriction Monitoring Fee				3,750		3,750		100.0%
3. Multi-Family Loan Conversion Fee								
1 City Attorney Staff Time			\$133/hr in excess of 16 hours					
2 City Housing Staff Time			\$94/hr in excess of 70 hours					
3 Standard Transaction			\$8,700 per transaction					
Sub-total Multi-Family Loan Conversion Fee				26,100		26,100		100.0%
4. Multi-Family Loan Origination Fee								
1 City Attorney Staff Time			\$133/hr in excess of 89 hours					
2 City Housing Staff Time			\$94/hr in excess of 205 hours					
3 Standard Transaction			\$31,000 per transaction					
Sub-total Multi-Family Loan Origination Fee				62,000		62,000		100.0%
5. Multi-Family Loan Recapitalization Fee								
1 City Attorney Staff Time			\$133/hr in excess of 21 hours					
2 City Housing Staff Time			\$94/hr in excess of 27 hours					

DEPARTMENTAL FEES AND CHARGES

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Service	2012-2013 Adopted Fee	2012-2013 % Cost Recovery	2013-2014 Proposed Fee	2013-2014 Estimated Cost	2013-2014 Estimated Revenue		2013-2014 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I								
5. Multi-Family Loan Recapitalization Fee								
3 Standard Transaction			\$5,300 per transaction					
Sub-total Multi-Family Loan Recapitalization Fee				5,300		5,300		100.0%
6. Multi-Family Loan Refinance Fee								
Note: This fee was previously titled Multi-Family Loan Payoff Fee.								
1 City Attorney Staff Time	\$83/hr in excess of 2 hours		\$133/hr in excess of 14 hours					
2 City Housing Staff Time	\$92/hr in excess of 4 hours		\$94/hr in excess of 16 hours					
3 Standard Transaction	\$368 each		\$3,400 per transaction					
Sub-total Multi-Family Loan Refinance Fee		100.0%		10,200	1,629	10,200	16.0%	100.0%
7. Multi-Family Loan Servicing Fee								
1 Multi-Family Loan Servicing Fee			\$18.75/unit per year					
Sub-total Multi-Family Loan Servicing Fee				3,750		3,750		100.0%
8. Multi-Family Project Owner Transfer Fee								
1 City Attorney Staff Time			\$133/hr in excess of 24 hours					
2 City Housing Staff Time			\$94/hr in excess of 33 hours					
3 Standard Transaction	\$1,275 per transaction		\$6,300 per transaction					
Note: Formerly "Multi-Family Project Owner Transfer Fee."								
Sub-total Multi-Family Project Owner Transfer Fee		100.0%		18,900	2,550	18,900	13.5%	100.0%

DEPARTMENTAL FEES AND CHARGES

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					Current Fee	Proposed Fee	Current Fee	Proposed Fee
LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I								
9. Multi-Family Project Restructuring Fee								
1 City Attorney Staff Time			\$133/hr in excess of 20 hours					
2 City Housing Staff Time			\$94/hr in excess of 21 hours					
3 Standard Transaction			\$4,600 per transaction					
Sub-total Multi-Family Project Restructuring Fee				9,200		9,200		100.0%
10. Single-Family Loan Payoff Fee								
1 Short Sale Loan Payoff Fee	\$287 per transaction		No Change					
2 Single-Family Loan Payoff Fee	\$144 per transaction		No Change					
Sub-total Single-Family Loan Payoff Fee				18,675	2,155	18,675	11.5%	100.0%
11. Supplemental Document Processing Fee								
1 City Attorney Staff Time			\$133/hr					
2 City Housing Staff Time			\$94/hr					
Sub-total Supplemental Document Processing Fee				6,535		6,535		100.0%
SUB-TOTAL LOW/MOD INCOME HOUSING ASSET FD - CATEGORY I				184,010	10,534	184,010	5.7%	100.0%
MULTI-SOURCE HOUSING FD - CATEGORY I								
1. Rental Rights and Referrals Program								
Note: Fee increases and one-time use of \$93,224 from the Reserve for Rental Rights and Referrals will bring the 85.1% cost recovery to 100%.								
1 Apartment Unit	\$6.50 annually	67.1%	\$7.50 annually	400,342	271,817	313,635	67.9%	78.3%

DEPARTMENTAL FEES AND CHARGES

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Service	2012-2013 Adopted Fee	2012-2013 % Cost Recovery	2013-2014 Proposed Fee	2013-2014 Estimated Cost	2013-2014 Estimated Revenue		2013-2014 % Cost Recovery	
					Current Fee	Proposed Fee	Current Fee	Proposed Fee
MULTI-SOURCE HOUSING FD - CATEGORY I								
1. Rental Rights and Referrals Program								
2 Mobile Home Unit	\$16.00 annually	86.4%	\$17.00 annually	198,070	172,304	176,647	87.0%	89.2%
3 Non-Rent-Controlled Apartments	\$1.00 annually	159.7%	No Change	26,219	41,125	41,125	156.9%	156.9%
Sub-total Rental Rights and Referrals Program		77.0%		624,631	485,246	531,407	77.7%	85.1%
SUB-TOTAL MULTI-SOURCE HOUSING FD - CATEGORY I		77.0%		624,631	485,246	531,407	77.7%	85.1%
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					

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					Current Fee	Proposed Fee	Current Fee	Proposed Fee
MULTI-SOURCE HOUSING FD - CATEGORY II								
1. Inclusionary Fees								
6 Rental Units	\$17.00 per square foot of total living space in entire development. Maximum per affordable unit: \$85,500		No Change					
2. Rental Mediation Penalty:								
Apartments								
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					
3. Rental Mediation Penalty:								
Mobile Homes								
1 30 days past due = 10% of the amount of the fee	Penalties and interest assessed for delinquent permit payment		No Change					
SUB-TOTAL MULTI-SOURCE HOUSING FD - CATEGORY II								
TOTAL DEPARTMENT - NON-GENERAL FUND				808,641	495,780	715,417	61.3%	88.5%
TOTAL DEPARTMENT - Category I				808,641	495,780	715,417	61.3%	88.5%
TOTAL DEPARTMENT - Category II								
TOTAL DEPARTMENT				808,641	495,780	715,417	61.3%	88.5%