COUNCIL AGENDA: 6/12/18
FILE: 18-819
ITEM: 4.4

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kim Walesh
Rosalynn Hughey
Jacky Morales-Ferrand

SUBJECT: **THE HOUSING CRISIS WORKPLAN**

DATE: June 1, 2018

Approved D. DSyl Date 6/1/18

RECOMMENDATION

Accept the staff report and approve the Housing Crisis Workplan.

OUTCOME

Implementation of the proposed workplan will enable staff to prioritize implementation and policy actions that facilitate the development of 15,000 market-rate and 10,000 affordable residential units by 2022.

BACKGROUND

On September 28, 2017 the Mayor issued a memorandum entitled "Responding to the Housing Crisis." This memo identified a large number of items to address the housing crisis and directed staff to identify which items could be implemented within an existing work program, which items required additional resources and prioritization at the October 17, 2017 Priority Setting Session, and which items would consume undue staff time, public cost or risk that would outweigh the likely benefit.

On October 12, 2017, Staff wrote a supplemental memo to City Council which identified 1) which items were "green light" items that staff would add to their department workplans; 2) which items were "yellow light" items that should be prioritized, and 3) which items would consume undue staff time, public cost or risk that would outweigh the likely benefit.

On October 17, 2017, City Council voted on those items that were considered "yellow" light as part of the Council Priority Setting Session. Of the seven "yellow" light items, two moved forward to prioritization and five did not receive sufficient votes to move forward (these items are detailed for reference in the *Items with No Work Currently Proposed* section below). The

update to the Accessory Dwelling Unit and Garage Conversion ordinance was ranked in the Top Ten priority items.

On April 23, 2018, staff presented the Affordable Housing Investment Plan to the Community and Economic Development (CED) Committee. The Affordable Housing Investment Plan memorandum included potential strategies to help support the development of affordable housing.

ANALYSIS

This memorandum represents an analysis of the items included in the Mayor's September 28, 2017 memo, Council's October 17, 2017 Priority Setting Session, strategies identified in Housing staff's April 23, 2018 memo to the CED Committee, and other potential strategies to support and accelerate residential development in San José.

Housing Market Context

While the local economy is continuing to expand and create demand for high-skilled worker housing, San José's housing market has matured and slowed due to increases in the costs associated with new construction, and the flattening of rents relative to these increased costs. While speculative development remains challenging in many parts of San Jose, there are some developments already in the pipeline that could proceed in the near term. In addition, it is likely that some developers are exploring options and entitlements for development in the future. The Housing Crisis Workplan is intended to respond to these conditions by looking for opportunities to accelerate "shovel-ready" development projects to move forward during the current cycle, and ensure that development projects are poised to respond to any changes in economic conditions.

Between the years of 2009 and 2017, an average of 3,000 units were built per year. While San José's housing production may drop below this average over the next five years, the City can achieve its housing goal of 15,000 market rate units by 2022 through a combination of new construction and residential entitlements. This workplan focuses on work items that will move projects to construction in the near term, increase the number of housing entitlements approved by the City, and position development entitlements and permits to be able respond quickly to market conditions.

Housing Crisis Workplan

The following section describes the proposed work items presented in four categories:

1. Council Prioritized/Directed: Work Underway
2. Other High-Return Strategies: Initiate/Continue Work Next
    a. Market Rate
    b. Affordable
3. Lower Priority/Lower Return Items: To Be Initiated
4. Items with No Work Currently Proposed

I. Council Prioritized/Directed: Work Underway

Work in this category is considered High Return meaning "High Return on Units" (ROU) toward the 25,000-unit goal next five years. These items are underway and slated to be completed prior to the end of the calendar year.

Transition from Level of Service to a Vehicle Miles Traveled CEQA Threshold:
On February 27, 2018 the City Council adopted a new Transportation Analysis Policy 5-1 that established Vehicle Miles Traveled as the new CEQA threshold for transportation impacts, thereby eliminating Level of Service, or automotive delay, as a CEQA threshold in San José. The new Policy 5-1 will provide a more streamlined entitlement process for housing development that is consistent with and implements the Envision San José 2040 General Plan.

Urban Villages:
Horizon I Urban Villages collectively are a key growth area for new housing, providing near-term housing opportunities in Villages with City Council-approved Urban Village Plans. Given this, the City Council directed staff to move Horizon II or III Urban Villages locates along existing fixed rail or Bus Rapid Transit into Horizon 1 to accelerate residential development. As part of the annual General Plan review this fall, staff will bring for City Council consideration recommendations on Villages to move into Horizon I. Moving Villages into Horizon I will not, in and of itself, facilitate housing since Urban Village Plans also need to be approved by Council prior to the approval of new residential units that are not part of a larger Signature Project. Staff have recently initiated the preparation of Urban Village Plans for the Berryessa BART (Horizon 1) and the North First Street (Horizon 2) Urban Villages. In addition staff recently was awarded grants to complete Urban Village Plans for the Southwest Expressway (Horizon 2), Race Street (Horizon 2), and Alum Rock East (Horizon 3) Urban Villages, all of which include a light rail station. Staff will also be seeking funding through grants and/or a budget request to complete other light rail Urban Villages that the Council approves this fall to be moved into Horizon 1.

Another Urban Village item in this work plan was to complete the Urban Village Implementation and Amenities Framework. This Framework was approved by the City

Council on May 22. As directed by Council, staff will begin developing the Urban Village Zoning districts and framework this fall, with Council consideration of these zoning amendments in the spring of 2019.

Accessory Dwelling Units:
Accessory dwelling units (ADU) are number nine on the City Council Priority List. Staff will be bringing accessory dwelling units zoning code amendments for Council consideration on June 19th. These amendments will provide additional flexibility for the development of ADU's as a means to encourage their production and provide more housing opportunities in San José. Historically, few ADU's have been built in San José, in part because regulations limited their development. Between 2009 and 2016, 16 units were built each year, on average.

While ADUs will remain a relatively small portion of the City's housing production, their construction is anticipated to grow significantly and play an important role in achieving the City's housing goal. Following a significant relaxation in ADU zoning regulations by the City Council in December of 2016, the number of units produced in 2017 shot up to 92 units. In the first four months of 2018, 52 permits have been issued for ADU's, with a total of 22 in April alone. With Council approval of the proposed ADU zoning code amendments in June, the number of ADU's built is anticipated to increase further.

Staff are projecting that 1,000 new ADUs could be built between now and the year 2022, an average of 200 per year. Half of these units (500) are anticipated to be naturally affordable given their size, and per state guidelines could count towards the City's affordable housing production.

To encourage ADU production, the Housing Department and PBCE are planning to develop an ADU educational and promotional campaign. To develop and implement this campaign, staff will partner with the Housing Trust Silicon Valley, which recently received funding for a staff position to focus on ADU outreach, education, and potentially financing. The campaign may include an enhanced web site, educational handouts or "how to" manuals, and ADU educational and promotional events. The City has already received funding to develop an ADU educational video, similar to an award-winning video on single family additions.

North San José:
The review of the North San José Development Policy is Item Number 11 on the Council Priority list. This item includes the completion of environmental work and proposed policy amendments necessary to move 4,000 housing units, including 2,400 affordable units, in excess of the Phase I "cap" of 8,000 units. Opening up more housing capacity in North San José is anticipated to be one of the most significant and impactful work items that will move the City towards its goal of building or entitling 25,000 new housing units by the year 2022. Staff have identified a path forward to adjust the phasing in the North San José Development Policy to make all Phase II development capacity available for construction

now, including 8,000 new housing units. This work is anticipated to be completed over the summer with Council consideration of Development Policy amendments this fall.

Of the 8,000 housing unit capacity that would be made available through Policy amendments, 3,200 units will need to be affordable, with the remaining 4,800 units available for market rate development. This 3,200-unit capacity includes 1,600 affordable units from Phase I that were not built and moved to Phase II, and the 1,600 units that were originally planned in Phase II. Staff will be proposing Policy amendments to ensure that the total 3,200-unit capacity of affordable housing gets built and not pushed out to a later Phase. Staff will also propose criteria that market rate housing development will need to meet to be allocated a portion of the new 4,800 market rate unit capacity. These criteria could include minimum densities and the inclusion of place-making amenities and retail, as well as the inclusion of affordable housing units.

Downtown:
Downtown San José has and will continue to provide one of the City's primary opportunities for new housing. Recognizing this, the City Council directed staff to focus resources to enable the construction or approval of 12,500 new units Downtown by 2022, in part by completing an update to the Downtown Strategy and EIR. This Strategy update will add 4,000 housing units to the capacity Downtown, establishing a total residential capacity of 14,000 units, and provide a more streamlined permitting approval process. Completing the Downtown Strategy update is a primary focus of City staff and the Strategy update is anticipated to come to Council for its consideration in the fall of 2018.

In addition to completing the Downtown Strategy update, the Council directed staff to:

- Modifications to the downtown zoning code including establishing height minimums, minimum densities, and requirements for ground floor active uses, and eliminating parking requirements
- Expand the boundaries of Downtown

The above work items are not anticipated to significantly impact housing production; however, with the approval of the proposal for two Planners to focus on housing in Downtown, Berryessa BART and North San José, staff would complete these items by the spring of 2019, building off the work of the Downtown Strategy Update.

West San José EIR:
The City of San José received a $1.39 million grant from the Metropolitan Transportation Commission to fund the preparation of Urban Village plans for the Stevens Creek, Santana Row/Valley Fair and the Winchester Urban Villages. This grant also funded the preparation of a West San José EIR that would analyze the environmental impacts of these three "Tri Village" plans and the West San Carlos and South Bascom Urban Village Plans collectively.

With the Council approval of the "Tri Village" plans on August 8, 2017, staff are preparing a West San José EIR. Related to this EIR, staff have also been preparing a West San José Multi-Modal Improvement Plan (MTIP), identifying needed multi-modal transportation improvements as well as a funding strategy. Both the West San José EIR and MTIP are anticipated to go to Council for consideration in the fall of this year.

PDO/PIO Fee Study:
A residential project's "parkland obligation" is based on the requirements of two Municipal Code Chapters: 14.25 Park Impact ordinance (PIO) and 19.38 Parkland Dedication ordinance (PDO). These ordinances require new residential development to provide three acres of land for every 1,000 people added to the community by a project.

A project's parkland obligation can be met through the dedication of land, or payment of park impact in-lieu fees equivalent to the acreage of land required, or construction of new or rehabilitation of existing public recreational amenities. PRNS highly prioritizes land dedication as the means for a project to meet its obligation because it is very difficult for the City to compete with developers to buy land when market values exceed assessed values. When land dedication or other recreational improvements are not feasible, PRNS provides a mechanism to allow the developers to pay an "in lieu" fee that is then used to build new or redevelop existing parkland, community centers, and trails.

PRNS is in the process of updating the Greenprint which is the long-term strategic plan that guides the future expansion of San José's parks, recreation facilities and community services. Once the Greenprint update is complete (expected in 2018), PRNS will analyze how park impact fees are assessed under the Park Impact and Parkland Dedication ordinances (PIO/PDO).

Regional Housing Strategy: CASA – The Committee to House the Bay Area:
Leaders from across the Bay Area are working together to build an actionable housing plan that will increase housing production across the region targeting all levels of affordability, preserve existing affordable housing, and protect vulnerable populations from housing instability and displacement. The Mayor is a member of the CASA Steering Committee and the Director of Housing is a member of the Technical Committee. The CASA process began in June 2017 and it is anticipated that the process will completed in Spring 2019. The final work product will include regional solutions in all three identified areas including production, preservation, and protection.

Anti-Displacement and Dispersion Strategies:
Urban growth may result in the displacement of existing residents who cannot afford the increased housing costs. For the last three years, the Housing Department has been working on strengthening tenant protections which have included lowering the annual rent increases in rent stabilized apartments, creating just cause eviction protections, and creating an Ellis Act Ordinance that provides relocation and other rights for tenants displaced due to redevelopment of their buildings. The City has also worked on mobilehome park closure

policies to increase transparency for park owners wishing to close and convert their parks, which are subject to mobilehome rent stabilization. However, the City needs to develop a more comprehensive set of tools to prevent and mitigate displacement as the community continues to densify.

San José was recently named part of a 10-city anti-displacement learning cohort sponsored by PolicyLink, a national equity and community development nonprofit based in Oakland. The San José team includes Vice Mayor Magdalena Carrasco, Director of Housing Jacky Morales-Ferrand, and Director of Planning, Building and Code Enforcement (PBCE) Rosalynn Hughey. It also includes three representatives from San José nonprofits – Derecka Mehrens from Working Partnerships, Nadia Aziz from the Silicon Valley Law Foundation, and Shiloh Ballard from the Silicon Valley Bike Coalition. The team will assess local challenges and will determine tools appropriate for San José. Part of that work will include significant community outreach to local organizations and residents to determine their concerns and desires. Staff expects this work to result in the creation of an Anti-displacement Plan for City Council consideration in 2019.

Advocate for State Legislation:
While many communities responded to the loss of redevelopment by passing local bond measures, State funds remain a vitally important financing layer needed to create affordable housing. During the last legislative session, the State Legislature passed SB 3, the Veterans and Affordable Housing Bond Act of 2018. SB 3 authorizes the issuance of $4 billion in State General Obligation bonds. If approved by the voters in November 2018, it will fund a range of affordable housing preservation and construction activities, infill infrastructure, and transit-oriented development. Of the total, $1 billion will be earmarked for a veteran's homeownership program, and $3 billion will fund existing State affordable housing programs. This session's SB 1206 (De León) authorizes the State to put on a Statewide ballot the $2 billion No Place Like Home Act, originally passed by the legislature in 2016, but delayed due to legal challenge.

City staff continue to actively track dozens of housing-related State bills, and are working with the City's lobbyists to give feedback on key legislation. Several active bills could create investments in affordable housing. Their current status is as follows.

Two bills, AB 3171 (Ting) and AB 912 (Beall, Skinner), seek to use a significant portion of the State's surplus for one-time funding of a variety of strategies to address homelessness, including creation of Permanent Supportive Housing. AB 3171 (Ting) would provide $1.5 billion in one-time funding for matching grants to cities to address homelessness. AB 912 (Beall, Skinner) would authorize $2 billion in one-time funding to State programs and to matching grants for local government to address homelessness. Given their large proposed sizes, these bills are currently being negotiated through the State budget process. As an alternative to the proposed bills, Governor Brown proposed $359 million in his May Budget Revise for one-time stop gap funding for affordable housing, including $250 million in emergency flexible spending block grants to Continuums of Care for

homelessness. On May 16, 2018, Senate leadership released a new Senate Housing budget proposal, which proposed the State invest $5 billion over 5 years to State housing programs and to matching grants for cities and counties to address homelessness. Staff will be able to determine the amount of additional State resources allocated to housing and homelessness when the State Budget is adopted on June 15, 2018.

In addition, SB 918 (Weiner, Rubio) would establish a State Office of Homeless Youth and would provide $60 million in annual grants to address youth homelessness.

Deferral of Payment of Fees to Certificate of Occupancy:
Under the City's current provisions for the collection of impact fees and taxes, payment occurs at the issuance of building permit upon completing the building permit review process. The purpose of this is to ensure that these fees are paid by the developer in a timely manner, using the issuance of the permit as a clear delineation. Some developers have provided feedback that deferring payment of these fees until issuance of the Certificate of Occupancy would help defer upfront costs and improve the chances of a project going forward. Currently the Inclusionary Housing Ordinance's (IHO) In-Lieu fee has provisions for payment at Certificate of Occupancy and several recent incentive programs have made use of this provision. In the case of IHO, the developer is entering into an agreement with the City which provides additional recourse for non-compliance. One concern with the deferral approach is that there is often significant pressure once a development is constructed to allow residents to move in, and the holding up of the Certificate of Occupancy becomes increasingly difficult. Staff will continue to work with the City Attorney's Office to refine an approach to resolving these challenges and will return to Council in the fall with appropriate actions.

II. Other High-Return Strategies: Initiate/Continue Work Next

In addition to analyzing the items prioritized and directed by Council, staff has explored other strategies to increase both market-rate and affordable housing development.

a. Market Rate Housing

Move the West San José Urban Villages into Horizon I:
As discussed at the April 26 and May 1 first Study Sessions, West San José is the location in San José where market rate housing development is most likely to break ground in the current market, given that rents are high enough to offset the high and increasing cost of construction. The Winchester, Santana Row/Valley Fair, and Stevens Creek Urban "Tri Villages" have a combined unbuilt and unentitled housing capacity of 7,521 units. The Villages are currently Horizon III however, and these plans include policies that make it challenging for housing projects to move forward using the General Plan's Residential Pool policy. To unlock the housing capacity of the Tri Villages staff, recommend that these Villages be moved from Horizon III to Horizon I one as part of the 2018 General Plan Annual Review.

While the economics of new residential development are likely not as strong as in the Tri-Villages, staff recommends that the South Bascom Urban Village also be moved to Horizon 1. This Urban Village is currently Horizon III, but is adjacent to a light rail station, and has a City Council-approved Urban Village Plan. The South Bascom Urban Village has a housing capacity of 1,560 housing units. Moving the South Bascom Urban Village, together with the Tri-Villages, into Horizon I would increase the City's immediately available market rate housing capacity by 9,081 units.

Downtown Highrise Construction Tax Reduction and Affordable Housing Exemption: With approximately 4,000 residential units in the pipeline, Downtown is currently the nearest term opportunity to capture housing in this market cycle. The current Downtown Highrise Incentive requires projects to have pulled building permits by July 31, 2018, and scheduled final inspection for eighty percent of the residential units within the downtown highrise structure on or before December 31, 2020. There are a number of projects that are close to being ready to move forward but would likely not make this deadline.

The current incentive involves a 50% reduction in Parks fees (PDO/PIO) and Construction Taxes. On December 19, 2017, the City Council adopted a new permanent Downtown Core Highrise PDO/PIO Fee Category (Resolution no. 78474) for projects that are 12-stories (or more) located in the Downtown Core, to recognize the different occupancy patterns occurring in highrise development. The construction tax portion of the incentive is now the primary benefit for eligible projects.

Prior to the transition to the Inclusionary Housing Ordinance (IHO) in December, 2017, the Affordable Housing Impact Fee (AHIF) Program included an exemption for downtown highrise projects that received Certificate of Occupancy prior to June 30, 2021. On December 19, 2017 City Council directed staff to bring forward a resolution to authorize reducing fees to zero for Downtown Highrise projects to align the IHO provisions with those of the prior AHIF and to ensure that projects under development are not subject to changing circumstances. Staff will return to Council later this month to finalize this implementation action.

In conjunction with the work outlined in the previous section to defer payment of fees until Certificate of Occupancy, staff is proposing to extend the incentive on Construction Taxes (50% reduction) that requires building permits by July 31 to align with Council's direction on the IHO exemption—to receive a Certificate of Occupancy prior to June 30, 2021. This would likely give several projects on the verge of moving forward an additional year to pull building permits.

As a new policy consideration, an extension of the construction tax incentive would be subject to the new provisions for including workforce standards in projects receiving a public subsidy. Prior to bringing the extension forward to City Council, staff will need to complete an Infeasibility Analysis in conjunction with a third-party development consultant

to demonstrate that the subsidy is required for projects in the highrise subcategory to be viable.

Establish a Housing Concierge Service:
Staff propose to establish a "Housing Concierge" Service to facilitate and promote both market rate and affordable housing opportunities. This service would help housing developers with site selection, and help navigate the City's policy and ordinance framework, and entitlement process. This service would also proactively market housing sites or opportunities to potential developers and investors, informing them of programs such as Opportunity Zones and the associated federal tax benefits, and locations within the City with potentially expedited CEQA due to low Vehicle Miles Traveled conditions.

The "Concierge Service" would comprise of a team of largely existing staff in the Office of Economic Development (OED), PBCE, and Housing. Ultimately, an effective Concierge Service will require a dedicated lead position, ideally in the City Manager's Office. OED's Business Development Program currently provides these types of concierge services to businesses and developers, including residential developers in key growth areas such as North San Jose and Downtown. Staff is exploring whether to reallocate a portion of a Business Development Officer position to lead efforts related to encouraging housing development, or recommend adding other resources in the City Manager's Office to be the lead on the Housing Concierge Service. The Housing Department also recently received a grant from Destination:Home Silicon Valley to fund an Affordable Housing Planner position in PBCE for three years. This new position would be an integral part of the Concierge Service, but focus on affordable housing only.

In addition to providing services to housing developers and marketing housing opportunities, the team would oversee and coordinate the implementation of this work plan. As part of this effort, staff will develop a spatial data base of housing opportunity sites. Staff could also potentially identify and undertake other policy or ordinance work, or process improvements that would facilitate housing.

Permit Timelines:
Following the Great Recession, San José experienced several years of a relative housing boom as demand, market, and economics aligned to provide a fertile environment for new residential development. The City's ability to respond to this opportunity quickly resulted from many projects located in key growth areas being entitled and receiving development clearances immediately prior to the recession. This meant that as the market returned many development projects in Downtown and North San José were poised to break ground as financing became available; they had a more favorable risk profile than projects that were just getting underway. To the extent that the current development cycle begins to the slow and potentially stall, staff recommends being prepared to undertake amendments to significant development projects to allow the extension of permits beyond the typical two years, with two one-year extensions. This will provide developers that same opportunity to get ahead of the cycle and deliver more housing units within a shorter timeframe.

Cost of Residential Development Models:
During the recent City Council Cost of Development Study Sessions on April 26 and May 1, staff presented an average cost of development for multi-family residential development. Providing a clear, consistent, and transparent basis for understanding the City's fee requirements gives developers the opportunity to refine their pro-forma early in their process and reduces the risk of under estimating fees. Staff recommends continuing to refine and update the cost of development models created for the study session and make them readily available to the development community. In addition to providing a breakdown of cost per unit, this model would be used as the basis for analyzing future changes to fees and presenting information on upcoming increases.

b. Affordable Housing

Private, Public, and Nonprofit Investments:
It is essential for our regional economy that workers of all incomes be able to live near their jobs and pay reasonable housing prices. Major Silicon Valley firms have recently begun to increase their investments in affordable housing. The Housing Trust of Silicon Valley has created The Tech Fund (Tech + Equity + Community + Housing) to provide start-up capital to affordable housing developments. LinkedIn recently invested $10 million into the fund, increasing the total amount of investment to $30 million. Cisco announced last month a $50 million commitment to Destination:Home to support the development of permanent supportive housing and ELI housing. And finally, the Chan Zuckerberg Initiative is planning a regional housing fund as a vehicle for private investments. This activity demonstrates that major employers are beginning to invest in affordable housing. Staff's recommendation expands the Mayor's proposal to leverage private dollars to finance not only housing for the "missing middle," but also to finance lower-income affordable housing developments.

In addition to a potential fund, staff is taking several actions to promote moderate-income housing, which cannot be funded with low-income housing tax credits and therefore are more infrequently produced. This includes: counting market-rate apartments with moderate-level rents towards Regional Housing Needs Allocation goals; examining different private financial products and partners for the creation of moderate-income rental housing in our market; collaborating with the Silicon Valley Housing Trust to promote use of its new ADU program; creating more City strategies to promote ADUs; and examining other tools such as federal Opportunity Zones as a potential incentive to create moderate-income housing. Finally, the Housing Department is engaging a consultant to develop a broad moderate-income housing strategy to address the needs of the missing middle. The Department will bring a moderate-income strategy to the Community and Economic Development Committee in late 2018.

Given the City's $125,000 per unit funding cap, affordable housing developers will need to leverage other sources such as those from County Measure A. As the pipeline of

affordable housing developments continues to grow, the Housing Department will prioritize funding requests from developers that apply for the State's Affordable Housing and Sustainable Communities Program (AHSC). AHSC is one of the State's largest affordable housing funding programs that also can fund cities' much-needed nearby infrastructure improvements that reduce greenhouse gas emissions. For the City's AHSC strategy to work, it is important that the organization devote significant focus and ongoing staff resources to plan and execute AHSC projects.

Commercial Impact Fee:
The Housing Department has published a chart of potential funding sources for affordable housing that have been considered in the past. The Housing Department's April 23, 2018 memo to the Community and Economic Development Committee provides a brief description about the sources, some of which require a vote of the people to implement. Many of the sources identified are used to fund affordable housing in other communities. There are very limited options that do not require voter approval. The Commercial Impact Fee (CIF) is one option that the City Council previously reviewed. In March, 2017 City Council directed staff to explore regional partnerships and study how a regional fee structure or revenue-sharing might address the need. Staff was directed to postpone reconsideration of a potential CIF following completion of deliberations by other cities. On January 12, 2018, staff released an Information Memorandum on the progress of the regional grand nexus study for commercial impact fees. The Housing Department is waiting to find out what action, if any, the City of Milpitas is going to take and will return to the City Council with a final report for further direction.

Staff recommends the following sequence of steps:

- Set a September date for a City Council Study Session on "Cost of Development: Commercial and Industrial", with a similar development prototype- and geography-based approach taken for the Housing Cost of Development Study Session
- Continue to advocate for a regional approach to scaling CIF's, a regional jobs-housing linkage fee
- Initiate the Nexus Study for a Commercial Impact Fee for the Diridon Station Area, as part of a potential "Diridon Transit Area Infrastructure Fee Program"
- After the Study Session and Diridon Area Study, consider initiation of a citywide Nexus Study, which would document the linkage between types of development, the new workers employed in the space, the need for affordable housing, and maximum legally supportable CIF that could be imposed (offices, R&D facilities, manufacturing facilities, retail stores, hotels, warehouses)
- In the Fall, after the Study Session and Diridon Area Study, consider initiation of a Financial Feasibility Study to estimate what level of commercial impact fee could be absorbed by the market for different development types in different geographic locations, given current commercial rent levels and the cost of development in San

José. Also, assess potential impact on San José's competitiveness vis a vis other Santa Clara County cities and Fremont, and on the City's jobs to employed resident imbalance.

Mixed-Income Development:
Consider allowing mixed-income developments to proceed within an Urban Village ahead of a Growth Horizon. This change would benefit development of both affordable and market-rate apartments, and fits with other tools that help affordable housing production. State streamlining applies in San José for all developments that are at least 50% restricted affordable and meet other defined criteria, so it is possible that the City could already be required to approve some mixed-income developments in Urban Villages in a future horizon. Tax-exempt bond financing, a frequent financing tool for mixed-income affordable developments, requires at least 20% or 40% of units to be affordable, depending on depth of affordability. If the City Council wants to explore this strategy, staff recommends that it be considered during the next Four Year Review of the General Plan scheduled to be initiated in 2019.

Refine General Plan Policy H-2.9 (the "1.5-acre rule"):
Complete a comprehensive review of General Plan Policy H-2.9 and evaluate if SB 35 streamlining can be applied to affordable housing developments on these sites SB 35. Objective definitions should be adopted to define what "underutilized" and "viability of surrounding commercial properties" means so that developers can take advantage of existing streamlining law and the existing General Plan. Staff recommends that this review begin immediately.

100% Affordable Zoning Code Amendment:
Affordable housing development is essentially compatible with commercial areas. The zoning code could be amended to enable affordable developments to proceed by-right with a Site Development Permit. Development applications could be approved by the Planning Director and be appealed to the Planning Commission. This change would facilitate more efficient development timeframes, would reduce costs, and would increase development certainty.

Commercial Space Requirements:
Ground floor commercial and community uses bring jobs, amenities, and street activation to a neighborhood. However, many affordable housing developments are facing challenges filling traditional commercial space because affordable housing financing cannot be used to fund the commercial space. There are three issues that consistently arise with the ground floor commercial requirement for an affordable housing development: 1) Commercial interior spaces sometimes remain unimproved which adds additional risk to the affordable housing development; 2) ground floor commercial space is sometimes difficult to rent once it is completed, and rents derived are frequently low; and 3) ground floor commercial space reduces the number of affordable apartments that can be created which in turn increases per unit subsidy requirements. Housing Department staff would work with staff from both

PBCE and OED to consider potential changes to the commercial space requirements for affordable housing.

Affordable Housing Land Acquisition:
Finding a suitable site for an affordable housing development is a challenge in San José's real estate market. High land prices and competition for sites make it difficult for an affordable developer to acquire land. The lack of viable sites is often identified as a primary obstacle to affordable housing developments. Developing a pipeline of sites will ensure that available funds are deployed as quickly as possible and could help to accelerate the expenditure of Measure A funds. This recommendation builds on the Mayor's recommendation to better identifying housing sites. The City, could identify and map underutilized or surplus publicly-owned sites, and small sites that meet the 1.5-acre rule, to facilitate the development of affordable housing.

Land Acquisition Loan Fund:
The City provides limited funding for land acquisition; however, it is very difficult for City staff to get City Council approval and close land acquisition loans in less than 120 days. There is also a small degree of uncertainty in the City Council funding approval process. This lead time is too long for affordable housing developers to compete with market-rate developers, who can make cash offers and close in 30 days. City staff only has the authority to approve a predevelopment loan of up to $100,000, $90,000 of which must be secured, without going to the City Council for approval. The site must also have the appropriate zoning and the environmental review must be completed. Creating or investing in an Acquisition Fund that is nimble and flexible will allow affordable housing developers to compete quickly in today's real estate market. The Acquisition Fund would be used to acquire land and buildings for future affordable housing development.

Land Trust:
Community land trusts (CLTs) are an established long-term affordability tool employed across the country. A CLT is organized to hold land and buildings for the benefit of the community and/or individuals. The acquired land can be vacant, residential, or commercial, but the goal is to determine the best use of the land and develop it accordingly. The CLT could work in conjunction with the acquisition fund to acquire and hold land until an affordable housing developer is identified. This reduces the risk and cost of holding the land for the developer. The land trust could hold the land in perpetuity to protect the community investment, and could ensure that ongoing affordability is present in key locations throughout the City. Or, the City could evaluate its capacity to purchase and hold land as an alternative to developing an independent CLT. Staff is currently researching CLTs' appropriateness for San José.

III. Lower Priority/Lower Return Projects: To Be Initiated

This Housing Crisis Workplan includes a number of items that are not anticipated to contribute significantly to the City's housing production goal; the projected number of units to which an item would contribute is provided for each item. While not anticipated to have

a significant impact, staff will still address the items at a later date. They will be given lower priority than the items listed above in this workplan.

- Update Downtown Zoning requirements to establish a minimum height and density and eliminate parking requirements (Units: 0)
- Explore public/private parking opportunities (Units: 0)
- Expand the Downtown boundary (Units: 0-150)
- Explore CFDs for payment of fees (Units: 0)
- Reimagine underutilized business corridors to allow the integration of housing (Units: 100-200)
- Pursue amendments to the General Plan to allow infill on problem/nuisance properties (Units: 0-50)
- Allow infill housing on isolated employment lands (Units: 0–100)
- Identify non-viable commercial or office sites for housing (Units: 0–100)
- Explore opportunities to leverage private dollars to finance housing for the "Missing Middle" (Units: unknown)
- Require elevated affordable housing inclusionary requirements for housing Conversions without City consent (Units: 0)
- Explore micro housing for the homeless on Caltrans Sites (Units: 0 - 25)

IV. Items with No Work Currently Proposed

The items below were given a yellow light, because they could not be addressed with existing resources, and were sent to City Council Priority Setting Session for prioritization on October 17, 2017. At this Priority Setting Session, these items did not get enough votes to be added to the Council Priority list. Given this, no work is proposed on these items at this time and they will not be included in the Housing Crisis Workplan.

Student Housing:
Working with the Planning Department of San José State University, identify additional opportunities (without DC zoning) to accommodate more housing for students, University staff, and the community.

Regional Fee Study:
Solicit private sector developer partners to fund a regional fee study that fairly assesses the aggregate cost of impact, regulatory, and processing fees in jurisdictions throughout the Valley, and enables comparisons of those fees for apples-to-apples projects.

Teacher Housing:
Report to Council regarding the response of school districts to the City's efforts to offer City help in funding affordable housing development on school district land for teachers and school staff, and enlist Mayor and Council in identifying and advocating with supportive districts to launch pilot efforts.

One Color on the Map:
Align the zoning districts of properties with those General Plan land use designations to reduce processing time and staff work, and make land use decisions more transparent.

Empty Home/Empty Parcel Fee:
Evaluate legal and policy justification for an "empty home" fee, similar to the city of Vancouver, British Columbia, to incentivize expansion of rental housing supply, and to generate dollars for affordable housing.

Proposed Housing Crisis Workplan

#	Item	Lead Department	Status
I. Council Prioritized/Directed+ High Return+ Work Underway			
1	Transition Traffic Analysis from LOS to VMT:	DOT/PBCE	Complete
2	Continue to implement Urban Villages: a. Implementation Framework: b. Move Horizon II Light Rail Villages into Horizon I	 PBCE/OED PBCE	 Complete Fall 2018
3	Update the Accessory Dwelling Unit and Garage Conversion ordinance	PBCE	Council June 19, 2018
4	Make addition residential units available in North San José	OED/Housing	Fall 2018
5	Complete the Downtown Vision and EIR	PBCE	Fall 2018
6	Complete the West San José Urban Village EIR	PBCE/DOT	Fall 2018
7	Complete the PDO/PIO Fee Study	PRNS	Initiate Spring 2019
8	Engage CASA on regional housing production	Housing	Spring 2019
9	Develop Anti-Displacement and Dispersion Strategies	Housing	Summer 2019
10	Advocate for State legislation that supports housing development	CMO/Housing	Ongoing
11	Explore deferral of payment of fees to Certificate of Occupancy	OED/PBCE	Fall 2018
II. Other High Return Strategies: Initiate/Continue Work Next			
12	Move-up Tri-Village Urban Villages to Horizon I	PBCE	Fall 2018
13	Extend the Downtown Highrise Incentive	OED	August 2018
14	Create a Housing Concierge Service	OED/PBCE/Housing	Summer 2018
15	Explore extending permit timelines	PBCE	Spring 2019
16	Publish cost of residential development models	OED	Fall 2018
17	Encourage private, public, and nonprofit investments	Housing	Ongoing

#	Item	Lead Department	Status
18	Explore options for a Commercial Impact Fee	OED/Housing	Spring 2019
19	Explore allowing mixed-income development ahead of Urban Village Plans through the four-year review	PBCE	Initiate Fall 2019 (GP Four Year Review)
20	Refine General Plan Policy H-2.9 (the "1.5-acre rule")	PBCE/Housing	Fall 2018
21	Amend the Zoning Ordinance to allow for 100% Affordable	PBCE	Spring 2019
22	Explore changes to Commercial Space Requirements for Affordable	OED/PBCE/Housing	Winter 18/19
23	Affordable Housing Land Acquisition Sites	Public Works/PBCE/ Housing/OED	Spring 2019
24	Explore the creation of a Land Acquisition Loan Fund	Housing	Feasibility assessment Fall 2018
25	Explore the creation of a Land Trust	Housing	Research late 2018
26	Hire an Affordable Housing Planner	PBCE	Summer 2018
III. Lower Priority/Lower Return Projects: To Be Initiated			
27	Update Downtown Zoning requirements to establish minimum height and density and eliminate parking requirements	PBCE	Spring 2019
28	Explore Public/Private Parking opportunities	OED	To Be Initiated
29	Expand the Downtown boundary	PBCE	Spring 2019
30	Explore CFDs for payment of fees	OED	To Be Initiated
31	Reimagine Underutilized Business Corridors to allow the integration of housing	PBCE	Spring 2019
32	Pursue changes to the GP to allow infill on problem properties	PBCE	Fall 2019
33	Allow infill housing on isolated employment lands	PBCE	Fall 2019
34	Identify non-viable commercial or office sites for housing	OED	Fall 2019
35	Leverage private dollars	Housing	To Be Initiated
36	Housing conversions without City Consent	PBCE	Fall 2019
37	Explore interim housing solutions on Caltrans Sites	Housing	In process

EVALUATION AND FOLLOW-UP

Items requiring Council approval will be brought forward for consideration per the proposed workplan. Staff will also provide annual progress reports on the Housing Crisis Workplan to the Community and Economic Development Committee.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 12, 2018 City Council meeting.

COORDINATION

The memorandum has been coordinated with the City Attorney's Office, Department of Transportation, Department of Public Works and the Department of Parks, Recreation, and Neighborhood Services.

COMMISSION RECOMMENDATION/INPUT

There is no Commission action associated with this item.

CEQA

Not a Project, File No PP17-009 (a), Staff Report, Assessment, Annual Reports and Informational memos that involve no approval of City action.

/s/
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Director of Economic Development

/s/
ROSALYNN HUGHEY
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Planning, Building and Code Enforcement

/s/
JACKY MORALES-FERRAND
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