



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

SUBJECT: SEE BELOW

DATE: November 4, 2019

APPROVED:

DATE: 11/4/19

SUBJECT: INCLUSIONARY HOUSING ORDINANCE PROPOSED REVISIONS

RECOMMENDATIONS

1. Accept Vice Mayor Jones' recommendations in his memorandum dated Nov. 5, 2019.
2. Accept staff recommendation for proposed revisions to the Inclusionary Housing Ordinance (IHO). Return to Council by the end of March 2020 with analysis and recommendations for the following:
 - a. Study how to incentivize density where appropriate for small projects between 1-4 unitsⁱ and between 5-20 units.ⁱⁱ Return to Council after outreach to small-project builders about the viability of those projects, and offer recommendations to incentivize densifying these projects including, but not limited to, considering bonuses to small projects that are substantially densifying infill sites.
 - b. Report back with the specific outreach to, and resulting responses from, market-rate and affordable housing developers and financiers regarding impact on financing by extending period of affordability to 99 yearsⁱⁱⁱ. Study and consider "life of the project"^{iv} as San Francisco applies to their affordable projects.
 - c. Include explicit flexibility for the City Manager/Housing Director to approve off-site (unintegrated) affordable housing plans that do not meet the minimum standard for contributions (currently proposed at 75% of in-lieu fee value^v) if the project incorporates innovative or unique partnerships with affordable housing developers that better accomplish City goals. Explore lowering percentage threshold in order to encourage innovative partnerships to maximize affordable housing as part of a project.

BACKGROUND

After several tumultuous, litigious, and unpredictable years, we can soon enter a clearer moment in which a single Inclusionary Housing Ordinance (IHO) program finally replaces the multiple and occasionally conflicting programs that included the Affordable Housing Impact Fee (AHIF) policy. After I led the effort to create an inclusionary housing policy in San Jose, and we endured five years of lawsuits, we can finally say that our inclusionary policy is beginning to provide resources critically needed for affordable housing development.

We were presented a somber report on the Cost of Residential Development in our City. While rents have risen to historical highs, skyrocketing construction costs have made it only harder for builders to get the financing to get a shovel in the ground. With little market-rate housing development, our inclusionary programs cannot provide affordable housing either.

I commend Staff for appreciating the linked nature of market-rate and affordable housing development as the basis for our inclusionary programs, and for their pragmatic proposed revisions to spur market-rate and affordable housing development.

There are a number of elements of IHO for which we should have more information – densification via small projects, 99-year affordability period, and off-site affordable housing options. Given that there is some time before an ordinance is brought back to Council for consideration, I recommend we dive deeper into some of the elements of the proposed revisions and welcome what we can learn.

ⁱ A.1 Reduce the Threshold to Five Units, Proposed Revisions to IHO Staff Memo

ⁱⁱ A.2 Phase in the in-lieu fee for small projects, Proposed Revisions to IHO Staff Memo

ⁱⁱⁱ F.1 Extend the Period of Affordability to 99 years, Proposed Revisions to IHO Staff Memo

^{iv} Table 5-6. Term of Affordability for Inclusionary Units, page 51, Keyser Marston Associates Inclusionary Housing Ordinance Study, Oct. 23, 2019

^v E.3 Define a Minimum Standard for Contributions to Off-site Affordable Projects