

# Memorandum

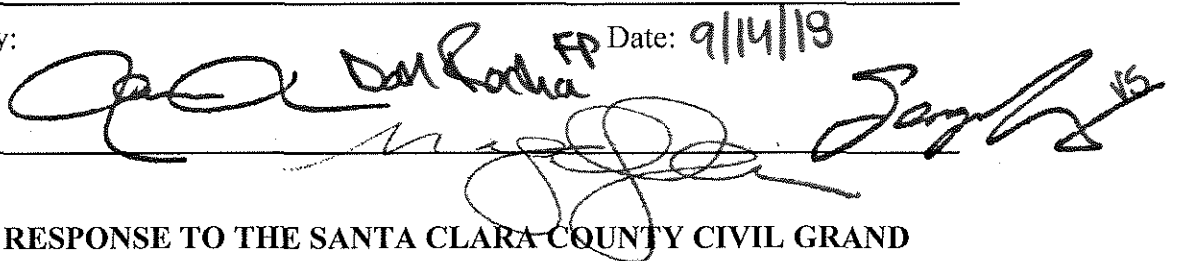
**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Councilmember Raul Peralez  
Councilmember Don Rocha  
Councilmember Sergio Jimenez  
Vice Mayor Magdalena Carrasco

**SUBJECT:** See below

**DATE:** September 14, 2018

Approved by:

 Date: 9/14/18

**SUBJECT: RESPONSE TO THE SANTA CLARA COUNTY CIVIL GRAND JURY REPORT ENTITLED "AFFORDABLE HOUSING CRISIS: DENSITY IS OUR DESTINY" AND TO POTENTIAL COMMERCIAL IMPACT FEE**

## RECOMMENDATION

Per the recommendation of the Santa Clara County Civil Grand Jury, direct City Staff to complete a nexus study and an accompanying feasibility study and enact a Commercial Linkage Fee (CLF) to create additional funding for below market rate (BMR) housing and accept Mayor Liccardo's September 10, 2018 memo with the following modifications and clarifications:

1. In preparation for a Citywide nexus study and feasibility study, report back no later than November to City Council with:
  - a. A scope of work for a nexus study and feasibility study, including consultant selection, a funding strategy and timeline for completion of the studies.
  - b. An update on exploring funding sources with organizations that have funded similar studies, consistent with its housing and transit strategic grant priority.
  - c. Include a Regional Commercial Linkage Fee as a legislative priority of the City, as previously discussed by the City Council.
2. Return to City Council for consideration, after a Citywide Nexus Study is completed, to explore a separate study for Downtown Core Commercial (office and R&D development impact fee).

3. Agendize a Progress Report on (a) formation of the City Council-authorized RHNA subregion, sponsored by the Santa Clara County Cities Association, with specific “next steps” identified for Staff and Council, and (b) formation of a Bay-Area wide commercial linkage fee, requiring state legislation, similarly based on relative jobs/housing ratios, for the Community and Economic Development Committee in Spring 2019.
4. Include in the Nexus Study data regarding ongoing and one-time tax revenues generated from employers in the City of San José.

### **BACKGROUND**

On June 21, 2018, the Civil Grand Jury of Santa Clara County published a report titled “Affordable Housing Crisis: Density is Our Destiny”.

The report outlined many recommendations to address the housing crisis in the County including strongly urging the City of San José to adopt a Commercial Linkage Fee policy. For those who are unfamiliar with its history, this is not the first time the City has discussed the possibility of a CLF during the past several years:

*Figure 1. History of Commercial Linkage Fee Discussion Since 2015*

<b>Date</b>	<b>Item</b>	<b>Outcome</b>
06/23/2015	Council Priority Setting Session	Council ranks CLF as 8th on Priorities list
12/15/2015	City Council considers whether to join Countywide Nexus Study	Council opts out
03/07/2017	Staff recommends dropping CLF from priority setting	CLF remains on priority setting
10/17/2017	Council Priority Setting Session	Council ranks CLF as 12th on priorities list
06/12/2018	Housing Crisis Work Plan	Council approves plan without Diridon specific CLF

Our Housing staff has stated that they do not have the adequate resources or funding to implement new housing, and yet we again denied the possibility of a CLF study in June. Even as we desperately race to build enough housing, it is a matter of fact that we will continue to fall short if we do not consider all available tools, including a Commercial Linkage Fee.

## ANALYSIS

We are fortunate to be in the midst of a strong economic cycle that has garnered commercial development. While our General Plan supports a strong “jobs first” model, we cannot dismiss the need for new housing units, which is a glaring component of our General Plan. Looking at incoming large non-residential projects, as illustrated in *Figures 2 and 3*, we currently have 4,750,085 sq. ft. of non-residential development under construction which equates to 11,841 potential new jobs, as well as, 9,919,849 sq. ft. permitted or in pre-construction, equating to 34,330 potential new jobs.

*Figure 2. Non-Residential Development in San José Under Construction as of February 2018 Note: These are based on projects 25,000 sq. ft. or larger*

	<b>Office</b> 221 sf/job (USGBC)	<b>Hotel</b> 917 sf/job (USGBC)	<b>Retail/Rest.</b> 600 sf/job (USGBC)	<b>Manufacturing Warehouse</b> 700 sf/job (USGBC)
Total Sq. Ft. by Sector	1,581,552	607,298	1,527,412	1,033,823
Jobs by Sector	7,156	662	2,546	1,477
<b>Total Jobs</b>	<b>11,841</b>			

Source: SV@Home jobs analysis of Department of Planning, Building, and Code Enforcement data

*Figure 3. Non-Residential Development. in San José Permitted/Pre-Construction as of February 2018 Note: These are based on projects 25,000 sq. ft. or larger*

	<b>Office</b> 221 sf/job (USGBC)	<b>Hotel</b> 917 sf/job (USGBC)	<b>Retail/Rest.</b> 600 sf/job (USGBC)	<b>Manufacturing Warehouse</b> 700 sf/job (USGBC)
Total Sq. Ft. by Sector	6,550,310	1,038,760	956,173	1,374,606
Jobs by Sector	29,639	1,133	1,594	1,964
<b>Total Jobs</b>	<b>34,330</b>			

Source: SV@Home jobs analysis of Department of Planning, Building, and Code Enforcement data

Note that these numbers do not include the potential tens of thousands of jobs slated for the Diridon Station area. We do not deny that these are exciting numbers as more jobs will bring more economic benefits to the City. However, as illustrated in *Figure 4 and 5*, we are trailing in building both market rate and affordable units to accommodate for this growth. If we do not manage our jobs to housing balance, it will exacerbate further San

José's existing crisis of homeless encampments, displacement and exodus of long-time residents.

*Figure 4. Affordable Housing Production in San José FY 2017-2018 as of June 2018*

	#ELI Units	#VLI	#LI	#Unknown
Completed	16	46		
Under Construction	177	410		
Predevelopment	49	63	85	263
<b>Total Units</b>	<b>1109</b>			

*Source: San José Housing Department*

*Figure 5. Housing Building Permits Issued for 2017*

Market Rate Units	2,622
Affordable Units	475
<b>Total Units</b>	<b>3,097</b>

*Source: San José Housing Department*

A linkage fee is a sustainable tool that can relieve the pressures of the housing market by generating affordable housing funds proportionate to our economic growth as well as help close the funding gap necessary to build affordable housing. As we have illustrated above, it would be naive to believe that the displacement of our most vulnerable residents is not somehow directly tied to our booming tech economy. As San José becomes a more lucrative destination for prospective employers, the demands of our housing market will continue to soar. We are pragmatic enough to understand that commercial development cannot solve our housing crisis alone, but it should contribute equitably to the overall effort.

## **CONCLUSION**

In the years that we have grappled with this topic, more families have crammed under one roof, become rent burdened and taken on too long of a commute all to prevent the seemingly inevitability of being displaced. The impacts of the housing crisis has been detrimental to our residents and community. What we can do is ensure that we are using

all the tools available, and in this case, asking that developments play their part in improving the overall well being of our City.