



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kim Welsh  
Lee Wilcox  
Jacky Morales-Ferrand

**SUBJECT:** COMMERCIAL LINKAGE FEE

**DATE:** December 7, 2018

Approved

*D. D. S. L.*

Date

*12/7/18*

## SUPPLEMENTAL

### REASON FOR SUPPLEMENTAL

This memorandum sets out the Administration's recommended next steps should the City Council direct staff to pursue study of a commercial linkage fee to address commercial development impacts on affordable housing.

### BACKGROUND

At the September 11, 2018 City Council meeting, the City Council considered a response to a Santa Clara County Civil Grand Jury report entitled "Affordable Housing Crisis: Density is Our Destiny." Among other findings, the report concluded that "commercial linkage fees can be an important tool to generate critical revenues to support [below market rate] housing" and that "use of commercial linkage fees is overdue and could be expected to substantially increase [below market rate] units." A commercial linkage fee is a type of development fee that offsets the marginal impact that new commercial development has in generating need for affordable housing.

Concurrent with the Council's consideration of the Grand Jury report, Vice Mayor Carrasco and Councilmembers Peralez, Rocha and Jimenez issued a memo recommending that the Council agendize direction to staff to pursue a commercial linkage fee. Mayor Liccardo also issued a memo to the same effect. The Council did not take action on these proposals at the September 11, 2018 meeting.

At the November 27, 2018 meeting, Vice Mayor Carrasco and Councilmember Peralez issued a memo under the Annual Homeless Report item recommending that the City Council agendize the Mayor's memo from the September 11, 2018 Council Meeting for City Council discussion before the end of 2018, for the purpose of providing staff direction to pursue a commercial linkage fee. The Council approved their recommendation.

## **ANALYSIS**

Should the Council direct the Administration to pursue study of a commercial linkage fee, staff would propose returning to City Council in February of 2019 with a plan for conducting both a nexus study and a feasibility study. A nexus study would assess the impact commercial development has on the demand for affordable housing, and thereby estimate what level of fee on commercial development is legally supportable. A feasibility study would project the effect a commercial linkage fee could have on the financial feasibility of various types of commercial development.

As part of the February report, staff would address the following issues:

- **Scope:** Staff will scope the nexus study and feasibility study, preparing an outline of the analysis that will need to be conducted and a plan to procure consultant services to complete it. In scoping the project, staff will review studies conducted by other jurisdictions on this issue.
- **Budget:** Staff will develop a cost estimate for the nexus and feasibility studies and either identify a funding source for the studies or refer the funding decision to the 2019-2020 Budget Process.
- **Timeline and Workplan:** Staff will develop a timeline showing when major work items will be completed.

At the February meeting, with the benefit of the above information, the Council would have the opportunity to provide staff with direction to pursue nexus and feasibility studies.

## **EVALUATION AND FOLLOW-UP**

Staff will return to City Council in February with information on scope, budget, and workplan for study of a commercial impact fee.

HONORABLE MAYOR AND CITY COUNCIL

December 7, 2018

**Subject: Commercial Linkage Fee**

Page 3

**COORDINATION**

This memo was coordinated with the City Attorney's Office and the City Manager's Budget Office.

/s/

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/s/

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