

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE FOR CONVERSION PROJECTS ELIGIBLE UNDER THE DOWNTOWN RESIDENTIAL INCENTIVE PROGRAM AND PROVIDE: (1) 50% REDUCTION IN THE PARKLAND IN-LIEU FEES FOR THE FIRST 500 UNITS IN PROJECTS THAT OBTAIN BUILDING PERMITS BY DECEMBER 31, 2026, AND PASS FIRST INSPECTION WITHIN 12 MONTHS OF OBTAINING A BUILDING PERMIT; AND (2) 30% REDUCTION IN THE PARKLAND IN-LIEU FEES FOR THE NEXT 1,000 UNITS IN PROJECTS THAT OBTAIN BUILDING PERMITS BY DECEMBER 31, 2027, AND PASS FIRST INSPECTION WITHIN 12 MONTHS OF OBTAINING A BUILDING PERMIT

WHEREAS, the City of San José (“City”) enacted the Parkland Dedication Ordinance, San José Municipal Code (“SJMC”) Chapter 19.38 (“PDO”) in 1988 and the Park Impact Ordinance, SJMC Chapter 14.25 (“PIO”) in 1992 to meet the demand for new neighborhood and community parkland generated by development of new residential subdivisions and new non-subdivided residential projects, both of which have been amended since that time; and

WHEREAS, SJMC Sections 14.25.060 and 19.38.060 authorize the City Council to establish the Park Impact Fee and Parkland Fee (collectively the “Parkland In-Lieu Fees”); and

WHEREAS, a Memorandum from Erik Soliván, Housing Director; John Ristow, Transportation Director; Jon Cicirelli, Parks, Recreation and Neighborhood Services Director; and Jim Shannon, Budget Director, dated January 5, 2026 (“Memorandum”), includes information on a two-phased program to support the production of residential development in the City’s Downtown Planned Growth Area; and

WHEREAS, SJMC Chapter 14.10 sets “Minimum Labor Standards for a Private

Construction Project Accepting a City Subsidy”, defining a subsidy to include any “reduction, permanent suspension or exemption of any fee or tax” that applies to single or multiple projects; and

WHEREAS, construction projects receiving a City subsidy are required to pay all workers employed on the construction prevailing wage rates, and are subject to other provisions such as requiring apprenticeships and local hire, among others; and

WHEREAS, there are exemptions to the definition of a subsidy that include the reduction of a fee or tax that is applied uniformly across all private construction projects within a specific subcategory of use, e.g., office-to-residential conversions, when City Council determines, based on specified criteria, that construction of the projects is not financially feasible; and

WHEREAS, according to the City’s 2025 Cost of Residential Development Study dated November 13, 2025 by CSG Advisors and Economic & Planning Systems, Inc. (“Study”), the construction cost environment remains extremely challenging and, while the rate of escalation has stabilized, the elevated baseline pricing continues to create significant feasibility barriers for multifamily development, with direct construction costs now accounting for approximately 69% of total development costs; and

WHEREAS, without incentives, only lower-density townhomes and stacked flats show positive residual land values; and

WHEREAS, higher-density rental housing developments remain financially infeasible without incentives; and

WHEREAS, analysis shows fee/tax waivers can improve project economics by \$4-16 million per development, often sufficient to achieve positive returns when combined with

modest rent growth; and

WHEREAS, the Study found that fee waivers may “tip the scales” toward feasibility when combined with modest market improvements; and

WHEREAS, the City recognizes the importance of supporting residential development to complement job growth, catalyze transit usage, and create a strong residential base to support the continued development of a vibrant city center; and

WHEREAS, based on the results of the analysis in the Report regarding the lack of financial feasibility, staff recommends (1) providing a 50% reduction in the Parkland In-Lieu Fee for the first 500 units in projects that obtain building permits by December 31, 2026 and pass first inspection within 12 months of obtaining a building permit; and (2) providing a 30% reduction in the Parkland In-Lieu Fee for the next 1,000 units in projects that obtain building permits by December 31, 2027, and pass first inspection within 12 months of obtaining a building permit; and

WHEREAS, expanding the existing incentive program framework to include appropriate commercial-to-residential conversion projects for mid-rise and high-rise buildings located in the Downtown Planned Growth Area will promote housing production, Downtown activation, and economic revitalization; and

WHEREAS, the City Council desires to rename the Downtown Residential High-Rise Incentive Program as the Downtown Residential Incentive Program to more accurately reflect the Program’s expanded scope and ongoing role in supporting residential development in Downtown San José; and

WHEREAS, eligibility requirements for conversion projects include: 1) located within the Downtown Planned Growth Area boundary; 2) constructed prior to 2021, excluding Class

A office space; 3) include building characteristics supporting conversion as determined by the City's Planning, Building and Code Enforcement Department and the Fire Department; 4) creates a minimum 20 residential units above the ground floor; 5) excludes ground-floor retail space and second-floor occupied commercial space in mixed-use buildings; 6) building permit obtained by December 31, 2026; and 7) passes first inspection within 12 months of permit issuance; and

WHEREAS, the Downtown Residential Incentive Program continues to operate within the City and State's existing regulatory and policy framework governing development incentives and public subsidies, including applicable labor standards and accountability requirements; and

WHEREAS, projects that receive a parkland fee reduction under this conversion incentive are ineligible for other park fee incentives, waivers, or credits under existing programs, such as private recreation credit, except for fee reductions applicable to affordable housing units; and

WHEREAS, Council considered staff's recommendation, and the revised reductions of the Parkland In-Lieu Fees as described below are made based on the findings of the Memorandum, the Report, the documents linked to the Memorandum, and the discussion at the Council meeting;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

- A. The above recitals are true and correct.
- B. The City Council hereby authorizes:

- (1) The Downtown Residential High-Rise Incentive Program is hereby renamed the Downtown Residential Incentive Program (“Program”).
- (2) A 50% reduction in the Parkland In-Lieu Fee for the first 500 units in projects that obtain building permits by December 31, 2026, and pass first inspection within 12 months of obtaining a building permit.
- (3) A 30% reduction in the Parkland In-Lieu Fee for the next 1,000 units in projects that obtain building permits by December 31, 2027, and pass first inspection within 12 months of obtaining a building permit.
- (4) Projects that receive a parkland fee reduction under this conversion incentive shall not be eligible for other park fee incentives, waivers, or credits under existing programs, such as private recreation credit in Resolution No. 73587, except for fee reductions applicable to affordable housing units.
- (5) Except as expressly modified by this resolution, all prior City Council actions, approvals, and requirements related to the Downtown Residential High-Rise Incentive Program shall remain in full force and effect.
- (6) City staff are authorized to implement the Program consistent with this resolution and to take all actions necessary or convenient to carry out its purposes.

ADOPTED this _____ day of _____, 2026, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

MATT MAHAN
Mayor

ATTEST:

TONI J. TABER, MMC
City Clerk