



## *Memorandum*

**TO: HONORABLE MAYOR  
AND CITY COUNCIL**

**FROM:** Erik L. Soliván  
Jim Shannon

# **SUBJECT: Soft Story Seismic Retrofit Pilot Financing Program**

**DATE:** January 5, 2026

Approved

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Date: \_\_\_\_\_

1/13/26

**COUNCIL DISTRICT:** Citywide

## **RECOMMENDATION**

- (a) Adopt a resolution authorizing the Housing Director or his designee to negotiate and execute an amendment to the Master Services Agreement with Guidehouse Inc., to increase total compensation by \$1,616,900, from \$350,000 to \$1,966,900, using Low and Moderate Income Housing Asset Funds, to implement a small scale, voluntary Soft Story Seismic Retrofit Pilot Financing Program by providing loans to property owners to begin retrofitting the highest-priority soft story buildings and to evaluate the effectiveness of the program and develop a framework for a future, larger-scale seismic retrofit financing program.
- (b) Adopt the following Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
  - (1) Decrease the Unrestricted Ending Fund Balance by \$1,616,900; and
  - (2) Establish the Soft Story Seismic Retrofit Pilot Financing Program appropriation to the Housing Department in the amount of \$1,616,900.

## **SUMMARY AND OUTCOME**

Following City Council's prior consideration of the proposed Soft Story Seismic Retrofit Financing Program, the Federal Emergency Management Agency (FEMA) announced reductions to the Building Resilient Infrastructure and Communities grant program. These changes significantly reduced the level of external funding previously anticipated to support the program implementation. As a result, the City will not receive sufficient federal funding to initiate a full program at the scale contemplated initially.

In response to these funding constraints, staff propose recalibrating the initial phase of the Soft Story Retrofit Ordinance (Ordinance) implementation to a smaller, voluntary targeted pilot financing program. Approval of staff recommendation will allow the City of San José (City) to negotiate and execute an amendment to the Master Services

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Agreement with Guidehouse, Inc. to implement a small scale, voluntary, Soft Story Seismic Retrofit Pilot Financing Program (Pilot). This approach allows the City of San José to continue advancing a critical life-safety initiative while prudently aligning near-term program commitments with current funding realities. The pilot is designed to test and validate the operational framework for a future larger soft story retrofit program in a controlled and fiscally responsible manner.

## **BACKGROUND**

On September 24, 2024, City Council approved an ordinance amending Title 17 of the San José Municipal Code to add Chapter 17.41 to require seismic retrofit of certain wood-frame target story residential buildings effective April 1, 2025. Development of the ordinance and initial program implementation was funded by a \$6 million FEMA Hazard Mitigation Grant award overseen by the California Governor's Office of Emergency Services. The Phase 1 grant was awarded in 2021. In August 2023, the City applied for an additional \$25 million FEMA grant.

Implementation of the Ordinance includes a Retrofit Financing Program, a public-private partnership, to defray the retrofit costs for property owners. Housing Department staff conducted an analysis of Apartment Rent Ordinance units to understand the projected number of buildings and units that would be impacted by the Ordinance. The data analysis provided the context for designing a Retrofit Financing Program to complete the retrofits by incorporating rebates offered through the FEMA grants and leveraging City funds to offer participating property owners a low-cost retrofit financing while mitigating tenant rent increases.

In response to federal government action, uncertainty of FEMA programs, and the slow movement of the City's \$25 million FEMA grant application, on March 25, 2025, City Council amended the effective date of the Ordinance from April 1, 2025, to April 1, 2026, along with the compliance deadlines in San José Municipal Code section 17.41.550 which requires seismic retrofit of certain wood-frame target story residential buildings.

In April 2025 since City Council's adoption of the Ordinance, FEMA announced changes and funding reductions to the Building Resilient Infrastructure and Communities program. These changes significantly reduced the amount of federal funding available for mitigation projects nationwide, including the funding levels previously anticipated by the City. However, recent court rulings set an injunction requiring the release of the Building Resilient Infrastructure and Communities program funding. The California Office of Emergency Management is working to determine how and when the funds will be received. Given these revised funding conditions, staff evaluated options to develop a modified approach that initiates program momentum while limiting fiscal exposure. Staff determined that advancing a smaller, voluntary pilot program would allow the City

to continue addressing seismic risk, refine program operations, and position the program for future implementation when funding opportunities are realized.

## **ANALYSIS**

San José's permanent housing stock comprises approximately 206,000 buildings containing about 351,000 units. Of those, about 17,000 buildings (156,000 units) are apartment and condominium buildings containing three or more units. Buildings constructed before 1990 with a soft story pose a widely recognized seismic risk to tenants, owners, and the City. Based on a statistical sampling, San José has between 2,600 and 3,600 such buildings, containing between 18,000 and 25,000 units. This represents approximately five to seven percent of the total housing stock. In some neighborhoods, pre-1990 soft story buildings comprise up to 20% or more of the local housing stock.

The current Ordinance requires retrofitting of all qualified soft story buildings that were built pre-1990, are multi-storied, and contain three or more dwelling units. The Ordinance includes compliance groups and schedules based on the age of buildings and building type. To reduce the cost of retrofitting properties—ranging between \$30,000 and \$140,000—staff proposed a Retrofit Financing Program based on a public-private partnership among FEMA, the City, housing providers, and tenants.

With the continued federal uncertainty and lack of funding to support the Retrofit Financing Program, staff has worked with Guidehouse Inc. and Working Solutions to propose a small-scale, voluntary pilot financing program funded at \$1.6 million. The pilot will test program operations, make real-time adjustments and be ready to scale as additional funding becomes available. The pilot will begin in April 2026, will target buildings with 20 units or less who voluntarily join the program on a first-come first-serve basis to initiate their seismic retrofits with contracted workers, and will have the option to utilize funding from the program to make additional unit upgrades such as energy efficiency or electrification, as an example.

The pilot aims to:

- Facilitate retrofits for up to 20, voluntary, building owners using a streamlined, low-tech process that minimizes administrative burden and documentation requirements and ample communications with tenants.
- Design a scalable program model that can evolve into a larger, technology-enabled program in the future, leveraging lessons learned from the pilot phase.
- Align to the City mandatory Soft Story Retrofit Ordinance, which takes effect April 1, 2026.

## Approach

The pilot is structured in three phases:

1. *Design and Standup*: Establish program eligibility, funding sources, documentation standards, and technical assistance. Develop operating procedures and communication materials for building owners and tenants.
2. *Outreach and Engagement to Building Owners and Residents*: The voluntary pilot program will be offered to all soft story building owners and tenants through promotions on the housing department website, social media, direct mail and email campaign to solicit voluntary participation.
3. *Administration*: Manage application intake, eligibility reviews, loan or grant disbursement, compliance monitoring, and reporting. Ensure alignment with federal and City regulations.
4. *Evaluation and Scaling*: Collect feedback, analyze outcomes, and refine the program design. Prepare for future expansion by developing digital infrastructure and scalable processes.

This phased, partnership-driven approach is justified by the following factors:

1. *Administrative Efficiency*: By streamlining documentation and focusing on low-tech solutions for the pilot, the program reduces barriers for landlords of smaller buildings, enhances communications with tenants and accelerates the retrofitting process.
2. *Scalability*: The pilot is intentionally designed to be adaptable, allowing the City to refine processes and build digital infrastructure for a larger program in the future and make improvements to program administration in real-time.
3. *Stakeholder Collaboration*: Leveraging the expertise of Guidehouse Inc. in program design and compliance, and Working Solutions in loan origination and servicing, ensures that each partner's strengths are maximized for program success.

The program will ensure compliance by aligning all processes with relevant regulations, utilizing standardized checklists, thorough documentation, and regular monitoring. Additionally, the pilot is designed to meet FEMA Hazard Mitigation Grant Program requirements from the outset, positioning the City for future reimbursement opportunities if funding becomes available and ensuring that all activities are audit-ready and transparent.

### **Preliminary Cost Analysis**

| Expense                                 | Amount             | Notes  |
|---|--------------------|--|
| Funds for project loans                 | \$1,000,000        | Up to \$100,000 loan per building  |
| Program administration (Program Vendor) | \$548,900          | About 50% of this cost for set up, and 50% for on-going administration           |
| Loan origination (Service Vendor)       | \$20,000           | Assuming fee at 2% of origination  |
| Loan servicing (Service Vendor)         | \$48,000           | Assuming 10 loans serviced for 10 years at \$40/month (assumes no early payment) |
| <b>TOTAL</b>                            | <b>\$1,616,900</b> |  |

### **EVALUATION AND FOLLOW-UP**

Consistent with prior direction from the City Council, staff will closely evaluate the outcomes of the limited pilot implementation to inform future policy and funding decisions related to the Soft Story Seismic Retrofit Pilot Financing Program. The pilot is intended to function as a test case for a larger-scale program and will generate critical data needed to assess effectiveness, feasibility, and readiness for expansion.

1. *Program Operations*: including application processing, compliance workflows, interdepartmental coordination, and staffing capacity;
2. *Participation and Feasibility*: including property owner engagement, tenant coordination requirements, and barriers to participation;
3. *Financial Performance*: including actual retrofit costs, administrative costs, and comparison to cost assumptions used in prior program planning; and
4. *Equity and Tenant Impacts*: including effectiveness of tenant protections, displacement avoidance, and coordination requirements established through the ordinance framework.

Evaluation metrics and findings will be informed by the program design and implementation principles previously reviewed by the City Council as part of ordinance adoption, including life-safety prioritization, housing preservation, and minimization of displacement. Data collected through the pilot will also be used to refine cost models and funding strategies initially contemplated in earlier program proposals. Staff will use the results of the pilot to further develop a fully scalable Soft Story Seismic Retrofit Pilot Financing Program that can be implemented citywide when additional funding becomes available. In parallel, staff will continue to monitor and pursue state, federal, and other funding opportunities to support broader implementation, including future FEMA or state hazard mitigation programs.

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Staff will return to the City Council with updates on pilot outcomes, funding developments, and recommendations regarding program expansion, ordinance implementation timing, and resource needs. Any proposed expansion of the Pilot or commitment of additional funding will be presented to the City Council for consideration and approval.

### **COST SUMMARY/IMPLICATIONS**

The actions recommended in this memorandum will utilize available resources from the Low and Moderate Income Housing Asset Fund (Fund 346). Staff recommends appropriating funds from the Unrestricted Ending Fund Balance and establishing a new expense appropriation within Low and Moderate Income Housing Asset Fund for the Soft Story Seismic Retrofit Pilot Financing Program to track related expenditures.

### **BUDGET REFERENCE**

The table below identifies the fund and appropriations to fund the contract recommended as part of this memorandum.

| Fund # | Appn. # | Appropriation Name                                  | Total Appropriation | Rec. Budget Action | Amount for Contract | 2025-2026 Adopted Operating Budget Page | Last Budget Action (Date, Ord. No.) |
|--------|---------|---|---------------------|--------------------|---------------------|---|-------------------------------------|
| 346    | 8999    | Unrestricted Ending Fund Balance                    | \$4,332,056         | (\$1,616,900)      | \$0                 | 1001                                    | 10/21/2025 31252                    |
| 346    | New     | Soft Story Seismic Retrofit Pilot Financing Program | \$0                 | \$1,616,900        | \$1,616,900         | NA                                      | NA                                  |

### **COORDINATION**

Implementation of the pilot will require continued coordination across multiple City departments and with external partners, consistent with the interdepartmental framework previously described to the City Council.

The Housing Department will serve as the lead department for pilot program administration, policy coordination, tenant protections, and funding strategy. Housing staff will coordinate closely with the Planning, Building, and Code Enforcement Department to align program requirements with the adopted Soft Story Seismic Retrofit

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Ordinance, permitting processes, inspection protocols, and compliance timelines. Staff will also work with the Energy Department to leverage existing rebate programs that will advance the in-unit improvements beyond the retrofitting for the participating buildings that will be offered as added incentives for energy saving upgrades.

As the pilot program advances, staff will ensure coordination remains aligned with City Council direction, existing policy frameworks, and available resources. Any proposed changes to roles, responsibilities, or implementation approach that have policy or fiscal implications will be brought forward to the City Council for consideration.

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Office of Emergency Management and Planning, Building, and Code Enforcement Department.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the January 27, 2026 City Council meeting.

### **CEQA**

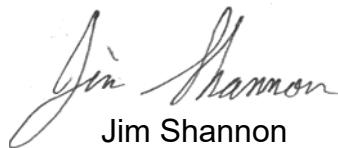
Categorically Exempt, CEQA Guidelines Section 15301, Existing Facilities (File No. ER23-173).

### **PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

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For questions, please contact Karly Wolak, Executive Project Manager, Housing Department, at [Karly.wolak@sanjoseca.gov](mailto:Karly.wolak@sanjoseca.gov).