



Tuesday, March 14, 2017, 3:00 PM

City Council Chambers

1. Call to Order/Welcome

Vice Mayor Caserta introduced the Affordable Housing Working Group, and explained there would be ideally no more than four meetings. He noted that the second meeting is already scheduled for March 28.

2. Public Presentation

Pillar Furlong, Bill Wilson Center: Ms. Furlong stated that she is excited to be here and support new tools to provide affordable housing.

Hamid Taeb, Habitat for Humanity: Mr. Taeb state that his organization builds affordable homes and wants to see moving forward how we promote greater home ownership of affordable units.

3. Overview and purpose of Working Group

Vice Mayor Caserta noted he would like this group to follow the example of the working group for parks fee, as that was a useful exercise.

4. Self-Introductions and Initial Statements

Joe Head, Summerhill Homes: Mr. Head said the group should recognize the importance of providing a broad range of housing, and the possible challenges, especially in a financially challenging area. He is looking forward to compromising on a fee.

Jeffrey Buchanan, Working Partnerships: Mr. Buchanan stated that affordable housing is on the minds of workers and that he is looking forward to coming to a consensus with the group.

Dennis Martin, BIA: The BIA represents residential builders. Their concerns range from the level of fees to the associated implementation policies.

Sarah McDermott, Local 19: Local 19 represents hotel and food and beverage workers. Our concern is that members fall in the low-income bracket and need access to affordable housing and want cities to provide affordable housing in proximity to jobs to decrease commutes.

Jon White, Abode: Abode develops and provides services for affordable housing projects. We are advocating for those in the 30% of the Average Median Income (AMI) and lower category, including people with disabilities and seniors to be able to have affordable housing locally.

Suds Jain, Planning Commission: Planning Commissioner Jain expressed the importance of providing affordable housing to address climate change and traffic, and the impacts of traffic congestion. Affordable housing is necessary to reduce vehicle trips.

Jim Mather, SV Housing Trust: Works on a broad scope of small to large housing projects as an affordable housing lender.

Kiyomi Yamamoto, Greenbelt Alliance: Promotes sustainability through smart growth and protecting the greenbelt by directing development in urbanized areas. While an affordable housing project may have environmental impacts upon the immediate vicinity, it is needed in urban areas to prevent sprawl.

Pat Sausedo, NAIOP: Ms. Sausedo represents the commercial real estate industry and is concerned about the ability to maintain reinvestment in housing development and their supporting industries. Employees in the Commercial Real Estate Industry want to access to housing close to work, but there is a lack of supply. Ms. Sausedo stated that she is concerned about added fees, which impact and increase overall housing costs and will be advocating for fair, justifiable fees that do not hinder investment and growth.

Pilar Lorenzana, SV@Home: SV@Home works with many affordable advocates, working on solutions to provide housing for all, and focusing on families that need the most help (extremely low and low income) as well as middle income (those that make a relatively good wage but are affected by high prices in the Bay Area). Ms. Lorenzana is looking for a fee that is practical and feasible and keeps development coming forward.

Roma Dawson, League of Woman Voters: The League is concerned about the connection between housing, transit and climate change. They have a 96-year history of nonpartisan analysis of political issues based on extensive research done before endorsing policies. The League recently endorsed Measure A.

Kira Valenta, filling in for Chris Horton, representing the Chamber of Commerce: Ms. Valenta stated that she would be collecting information at the meeting as Chris was unable to attend and that Chris is planning on attending the next meeting.

Sarah McIntire, MidPen Housing: Ms. McIntire explained that Midpen Housing has provided two affordable housing projects in Santa Clara that provide about 220 affordable housing. The waitlist for these projects was over 500, showing the strong need for affordable housing. She noted that impact fees could be used to leverage state and federal funds to provide stand-alone projects.

Steve Edwards, RE Development: Mr. Edwards expressed that he is excited about the ongoing re-urbanization of cities and is prepared to discuss these trends and the expenses of building housing. he stated that there is a need for a balancing act and impact fees that do not deter development.

Vincent Rocha, Realtors Association: Mr. Rocha identified concerns See if housing that will be built will actually be affordable and whether impact fees will have an impact on the middle class and their ability to find homes.

Andrew Crabtree, City of Santa Clara Community Development Department: Staff will do their best to support the Affordable Housing Working Group in finding a consensus or an acceptable compromise on the various components of the proposed impact fee that can be translated into a policy document representative of the group's expertise and concerns.

Rajeev Bhata, City Manager: Mr. Batra said that his role is to support the City Council to bring this effort to a resolution so that staff can provide appropriate recommendations.

Councilmember Pat Mahan: Ms. Mahan stated that Santa Clara was formerly seen as a low cost area to develop and build housing, but that the perception is now changing. She said we are looking for new ways to do the things we want to do, like providing affordable housing at all levels, and hoping we can come to something that is reasonable and doesn't divide the City.

Councilmember Pat Kolstad, City Council: Mr. Kolstad noted that we are way behind the curve on the jobs to housing balance and that we need to strike the balance between providing housing but remain competitive.

Vice Mayor Caserta opened Public comment again as more people had arrived.

Mark Tersini, KT Urban: Our company's focus is primarily on higher density projects. It is important to mention that there are different types of construction (Type 1, Type 3, or Type 5), which may need to be addressed differently. He is looking for a balanced approach for these fees.

5. Discussion

Mr. Crabtree provided a brief introduction of the process to date the City has undertaken in obtaining the Nexus Study, which established the maximum supported fees for various land uses and summarized the city's community engagement activities. He emphasized that staff has not made recommendations for fee levels or implementation policies, but included a set of 'considerations' to enable stakeholder engagement and discussion. The City conducted 6-7 community and stakeholder meetings and put forward considerations as a starting point for conversation to ultimately get to a point where we could make recommendations.

Mr. Crabtree noted that one way to approach the Group process would be to go through Residential and Non-Residential separately and go through each building type separately to discuss. Mr. Crabtree stated that he will also be listening to identify other concerns/issues which should be discussed at following meetings.

Councilmember Pat Mahan queried why the rental residential fee was so high. Mr. Crabtree explained that the fee was put forward at a level that would be equivalent to the cost for a developer to include 10% of their units as affordable to a moderate-income household and that this approach was intended to avoid an unintentional prejudice toward payment of the fee over including affordable units within development projects. Councilmember Mahan stressed the need to get affordable housing units mixed within current projects to create a

balanced, mixed community and noted that in the past the City used Redevelopment funding to subsidize affordable units within development projects.

Councilmember Pat Kolstad noted that he wanted to see where we stack up against other cities.

Ms. Lorenzana highlighted differences between inclusionary/mixed income and standalone affordable housing projects and the need for a comprehensive analysis of all fees. She supported the fee levels as proposed to create incentive for mixed income developments. She also observed that standalone affordable housing projects, however, extends the money further because the developer can leverage state and federal funds. She said the City should seriously consider using collected fees to leverage other funding sources. She would like the Group to discuss and see the full spectrum of all impact fees and all development costs associated with a project. Pilar urged the City Council to move quickly with adoption of impact fees.

Mr. White noted his support for the consideration of commercial linkage fees. He stated that there is a direct link between job creation to the housing that is needed, and he would like to see commercial linkage fees set much higher. He noted that there is more challenge with providing housing for extremely lower income (ELI) families because of the building costs. He said that because of the high demand for tech offices here, a tax on this type of building will not drive development away as the demand is based on the very large talent pool here. He noted that standalone affordable housing projects are able to leverage 2-3 times what the City is able to provide. Mr. White also pointed out that affordable housing projects that are built now are very high quality, not like the housing built in the 50s and 60s. He also stated that apartments are naturally more affordable and that home ownership is particularly expensive. He observed that there is nearly a \$500,000 gap between what is affordable to moderate income level households and the average price of a new home. He warned the group not to disincentive building of apartments.

Commissioner Jain highlighted the City's Jobs to Housing ratio of 2.89:1, and noted that the City desperately needs to build more housing. He stated that the more we build the more affordable housing becomes. He would like to know what 10% looks like as an impact fee.

Ms. McIntire mentioned that the Affordable Housing projects built today are of very good quality. She highlighted that there is a need for standalone Affordable Housing projects for leveraging funds and for the services that are needed for these development (for example, for senior housing).

Mr. Edward noted that rental housing is often more affordable and therefore, creating supply is very important. He warned against disincentivizing residential projects. Mr. Edward also noted that the pro forma for non-residential looks better with the proposed impact fees; we need to spread the impact fees evenly between residential and non-residential projects.

Mr. Rocha noted that San Jose just looked at what incentives were needed to build high-density housing near transit. He provided, by example, that smoking is generally taxed to discourage smoking. He queried whether a tax would disincentivize housing being built. Furthermore, Mr. Rocha suggested developer incentives to allow high-density housing near transit, with a requirement to provide 10 percent Affordable Housing onsite. Lastly, by means of comparison, Mr. Rocha explained that groceries are subsidized for lower income

families but groceries are not taxed for everyone. He suggested using funds from the General Fund to provide Affordable Housing as opposed to taxing development.

Mr. Head highlighted that from a developer's perspective, the impact fee is a cost. He explained that a \$30/sf fee, for example, will increase the development cost by 20%. The only way that cost is absorbed is by providing a product at the higher end of the affordability spectrum.

Mr. Head queried the cost per unit for aggregated units and the timing to provide it. He questioned the value of providing a few units sooner in the timeline as opposed to aggregated funds for a larger project.

Mr. Buchanan highlighted that when examining RHNA numbers, it is clear that the City is under providing. He also noted that it is apparent supply needs have not been met by the market. Furthermore, he noted that a tax does not deter development here. He explained that in this particular context, a low-income family would income two people working for \$15 per hour, a salary that would arguably be considered a median income anywhere else in the U.S. He stressed the need for services to be configured into projects for seniors, special needs families, etc. Furthermore, Mr. Buchanan noted that transit oriented development has natural market based incentives and often ends up being priced much higher because it is desirable, leading to gentrification and displacement and the need for even more affordable housing.

Mr. Martin noted the 2.89:1 jobs housing ratio and highlighted that the City desperately needs more housing. He argued that the nexus study does a poor job at directing the City towards a fair and reasonable impact fee. The Maximum Supported Fee levels, he remarked, are by no means reasonable and are grossly over stated. Mr. Martin highlighted that BIA have conducted some research on this and will have a discussion with KMA on these issues.

Furthermore, Mr. Martin stressed that the Nexus Study does not analyze the overall impact of residential and non-residential building types and urged the group to consider spreading the costs between these building types. He stressed an economic feasibility analysis is needed.

Mr. Martin noted that the \$17/ sq. ft. Rental Residential Affordable Housing impact fee applicable in San Jose derived from an already established in lieu fee that was previously applicable. He explained that the impact fee was adopted in 2014 and the fee went into effect in July 2016. He noted that downtown units are exempt from this fee to incentivize development downtown.

Lastly, Mr. Martin stressed that it would be a detriment to charge a fee that is too high and the State Density Bonus will incentivize development and creation of Affordable Housing.

Vice Mayor Caserta queried if staff could provide some information on the effect of Affordable Housing Impact Fees in Palo Alto and Cupertino as well as the San Jose Downtown area. He noted that incentive programs could be a useful tool to consider.

Councilmember Mahan noted the pushback received from the community regarding high-density projects. She further noted that while she does support standalone Affordable Housing projects, many of which exist in Santa Clara with varying affordability levels and

wrap around services, she would also like to see affordable units mixed in within housing projects.

Ms. Lorenzana emphasized that Nexus studies are a best practice for adopting impact fees. The City of Mountain View has had an adopted impact fee for the longest time and has publicly said it hasn't stopped development at all. She noted that it is not just an issue of supply and demand because these are very different supply sectors and further noted that Market rate housing has not trickled down, noting research conducted by UC Berkeley, which she would be happy to share. Ms. Lorenzana highlighted that Affordable Housing builders need tools to be able to build housing just like developers have said they need incentives not to deter development.

Lastly, Ms. Lorenzana explained that market rents are set to market demand. Impact fees, therefore, will not have impact the actual rate a rental unit goes for.

Planning Commissioner Jain noted that Density bonuses do not create any more affordable housing in Santa Clara. He explained that most of this development is near transit, and the developer takes the transit bonus instead. Therefore, the affordable housing units are not built.

Ms. McDermott stressed that the group should not look at supply as the only solution, as research has shown that this is not the only solution and doesn't work right now. She urged the group to think of new ways to provide Affordable Housing.

She queried the thought process for excluding hotels from the fee as people who work in hotels need affordable housing and noted that Santa Clara is a hot place to building a hotel.

Mr. Crabtree, by way of reply, explained that the City puts General Fund dollars into building Affordable Housing and hotels provide money toward the General Fund. He noted that was to prevent disincentivizing construction of hotels.

Mr. Rocha noted that the Nexus is a legally defensible tool, but maybe not the best policy tool and reminded that group that the Nexus is not the only truth in this discussion. He queried why development is only catering to the higher end of the market and Cities are subsidizing the lower 10 percent of the market. He stressed the need to cater to the other 80 percent. Mr. Rocha also stressed that it is not the developer's responsibility to provide for every income segment of population and queried if the building trades consulted?

Mr. Buchanan confirmed that the Working Partnerships supports the proposed fees.

Councilmember Mahan stressed that the building trades should be included in this conversation, and queried if staff considered accessory dwelling units as a means of providing further Affordable Housing.

Ms. McIntire highlighted that fees are one tool in the tool box and voiced support for other policies as well, such as tiny homes. She stressed the need to use local dollars to leverage state and federal funds. She additionally noted that the current ordinance only focuses at 80-120 AMI for onsite provision for for-sale and does not address anything below 80 AMI.

Lastly, Ms. McIntire remarked that the Nexus Study is legally defensible and works to offset an externality. She noted that a tax on groceries is not comparable to a tax on development and stressed that Affordable Housing will not be provided by the market.

Mrs. Dawson highlighted San Jose's General Plan process and noted that while it was a hope to see a jobs to housing ratio of 1.3 to 1.5, four years later it was clear that this ratio was not going to be achievable in the near future. She urged the group to be careful when comparing San Jose to Santa Clara, and advised caution in considering why San Jose did what they did downtown.

Mr. Tersini noted that Santa Clara County recently passed 950 million towards affordable housing and queried if the measure was reflected in the KMA study? He also noted that the Nexus study addressed 18 jurisdictions and queried the affect within those jurisdictions as well as how many units have been created.

Mr. Crabtree confirmed that the nexus study pre-dated Measure A.

Mrs. Sauser emphasized the importance of minimizing disincentives to commercial development. She noted that developers are part of the solution and urged for multiple solutions. She noted that development community does not want to solve this problem alone and stressed the need to see more projects like Santa Clara Square.

Vice Mayor Caserta reminded the group that the next meeting would be held in the Council Chambers on Tuesday, March 28, 2017, at 2:30pm. He noted that the third Working Group meeting would be held on Tuesday, April 11, 2017 at 2:30-4:30pm and the fourth meeting on Tuesday, April 25, 2017, at 2:30-4:30pm.

Mr. Crabtree announced that the Council will be hosting a community meeting on March 20th at 7:00pm in the Council Chambers to discuss updates to the Zoning Ordinance, with new State Law changes to Accessory Dwelling Units being discussed as well as other zoning updates.

6. Identification of topics for next Working Group meeting

- a. For Sale Inclusionary Requirement (e.g. 10-15%)
- b. Affordability Level (e.g. 80%, 60%, 30% AMI)
- c. Fees for Residential Development
- d. Fees for Non-Residential

7. Information to be provided and/or Actions for the next Working Group meeting

- a. Invite a representative from the Building Industry to the Affordable Housing Working Group
- b. The full spectrum of Development Costs (i.e. Park fees, School fees, Public Improvements works or fees, in-lieu streetscape fees)
- c. What does 10% provision of Affordable Housing equate to as an Impact Fee?

d. What is the cost for providing an aggregated unit and what is the timeline to provide it? What is the value of providing fewer units sooner in the timeline as opposed to aggregating funds for a larger project? Would it be more effective to use fees towards buying inclusionary units within market rate developments as opposed to stand-alone projects or requiring developers to include affordable units?

e. What is happening in Palo Alto, Mountain View, and Cupertino? Are impact fees deterring development? Are Affordable Housing units being built?

f. Provide information regarding San Jose 'incentive' approach, similar to enterprise zones