



DISCUSSION ITEMS

Agenda Item # 7

AGENDA REPORT SUMMARY

Meeting Date: May 8, 2018

Subject: Affordable Housing Impact Fees

Prepared by: Jon Biggs, Community Development Director

Approved by: Chris Jordan, City Manager

Attachments:

1. Draft Ordinance Establishing an Affordable Housing Impact Fee for Residential and Non-Residential Development
2. Summary; Residential and Non-Residential Nexus Analyses and Study, Keyser Marston Associates, Dated - December 2016
3. City Council Minutes – May 9, 2017

Initiated by:

City Council

Previous Council Consideration:

The City Council last reviewed affordable housing impact fees on May 9, 2017.

Fiscal Impact:

If adopted the Affordable Housing Impact Fee would generate funds for the City to use towards its affordable housing initiatives. There would be an administrative cost associated with collecting and dispersing these affordable housing fees; however, the expenses are expected to be nominal and the fees themselves may be used to make up for such costs.

Environmental Review:

The adoption of this Ordinances is (1) not a Project under the California Environmental Quality Act (CEQA) and is therefore exempt pursuant to Title 14 of the California Code of Regulations, Section 15378(b)(4) because it constitutes a governmental fiscal activity that does not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment; (2) statutorily exempt pursuant to CEQA Guidelines section 15267(Financial Assistance to Low or Moderate Income Housing; (3) not intended to apply to specifically identified affordable housing projects and as such it is speculative to evaluate any such future project now and, moreover, they will be subject to appropriate environmental review at such time as approvals for those affordable housing project are considered; and/or (4) not intended to, nor does it, provide CEQA clearance for future development-related projects by mere establishment or payment of the fees. Each of the foregoing provides a separate and independent basis for CEQA compliance and, when viewed collectively, provides an overall basis for CEQA compliance.

Policy Questions for Council Consideration:

- Should Los Altos adopt affordable housing impact fees?



Subject: Affordable Housing Impact Fees

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- If affordable housing impact fees are adopted, to what land uses should they apply?

Summary:

- The Keyser Marston Associates affordable housing nexus studies conducted for Los Altos support adopting affordable housing impact fees.
- The draft ordinance provides that residential ownership and residential rental developments and non-residential developments pay a fee to mitigate their impacts on the supply of affordable housing.
- The ordinance provides for the production of affordable housing or enhancement of affordable housing opportunities in-lieu of paying the affordable housing impact fee.

Staff Recommendation:

That the City Council move to direct staff to prepare and publish a public hearing notice in preparation for Council consideration of the introduction of an affordable housing impact fee ordinance at its meeting of May 22, 2018.



Subject: Affordable Housing Impact Fees

Purpose

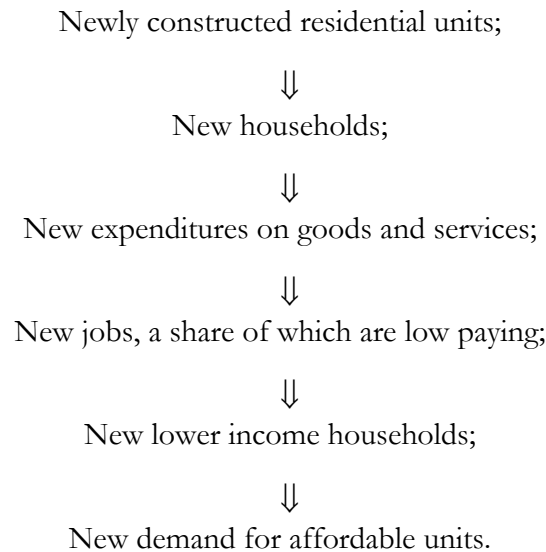
Consideration of the appropriateness of adopting affordable housing impact fees for non-residential (ownership and rental units) and residential development. Adopting these fees would implement Program No. 4.3.7 of the 2015-2023 Housing Element of the City’s General Plan.

Background

What are affordable housing impact fees?

Affordable housing impact fees are development fees that are intended to mitigate the impact residential and non-residential development have on the supply of affordable housing. The fees collected may be used to develop affordable housing, rehabilitate affordable housing, and provide limited administration costs as they relate to building and maintaining affordable housing.

To adopt affordable housing impact fees, the City must determine a nexus, or connection, between development and its impact on and need for an affordable housing supply. For residential development, the nexus analysis concept is as follows:



For commercial development, the nexus analysis concept is similar: new commercial buildings add new workers; new workers create a need for additional housing in proximity to the jobs; a portion of the new housing needs to be affordable to workers in lower income households.

The City’s 2015-2023 Housing Element Program No. 4.3.7 sets forth a requirement to consider adopting affordable housing linkage fees for commercial development. On May 26, 2016, the City Council expanded the scope of this program to include residential development.



Subject: Affordable Housing Impact Fees

To help establish a basis to consider such fees, the City joined a multi-jurisdictional study organized by the Silicon Valley Community Foundation. The resulting studies were made up of three reports prepared by Keyser Marston Associates.

1. Summary, Context Materials and Recommendations Affordable Housing Nexus Studies;
2. Residential Nexus Analysis; and
3. Non-Residential Nexus Analysis.

The commissioned nexus reports demonstrated a clear basis to adopt affordable housing impact fees. The reports demonstrate the high range of possible fees and recommended lower justifiable amounts.

On March 16, 2017, the Planning Commission held a hearing and made several recommendations on the affordable housing impact fees to the City Council. The City Council took up consideration of the Planning Commission's recommendations and affordable housing impact fees at its meeting of May 9, 2017. There was agreement amongst the City Council that affordable housing impact fees should be charged and directed preparation of a draft ordinance to institute the fees.

Discussion/Analysis

The City Council is being asked to consider a draft ordinance (attachment 1) that would require payment of affordable housing impact fees for residential and non-residential development projects. The fees would apply to residential ownership and rental projects that result in a net increase of two or more units. It would also apply to non-residential projects that result in a net increase of 500 or more square feet of floor area.

The fee for each project will be based on the new gross floor area of the project, which will be multiplied by a square foot fee, which will be established by a resolution of the City Council if the ordinance is adopted. At its meeting in May of 2017, the City Council indicated that the following fees for the indicated use would be appropriate:

1. Staff is to propose a fee for multiple-family ownership developments (staff is considering \$50 per square foot);
2. A \$45 per square foot fee for multiple-family rental developments;
3. A \$15 per square foot fee for non-residential development;
4. A \$25 per square foot fee for office developments.

Per the draft ordinance, any fee collected must go into the City's affordable Housing Mitigation fund and used to support the development of affordable housing in the City or the region.



Subject: Affordable Housing Impact Fees

The draft ordinance also provides that a developer may request alternatives in-lieu of paying the affordable housing impact fee. Generally, the alternatives amongst the three categories of projects that will be required to pay the fee include:

- Construction of affordable units on-site; or
- Dedication of land for affordable unit production; or
- Designation of affordable units off-site.

Requests for these in-lieu alternatives require consideration and approval by the City Council, which may approve the request if it determines that the alternative will mitigate the impact of the project on the need for affordable housing.

It is worth pointing out that those projects that provide affordable housing units on the project site, in-line with the requirements of Chapter 14.28, will not need to pay an affordable housing impact fee. This makes sense because they will be addressing the impacts on the affordable housing supply by increasing the supply of affordable housing units.

The draft ordinance does include a section that gives the City Council the discretion to waive the affordable housing impact fee. This can be done if the applicant can demonstrate, to the satisfaction of the City Council and based on substantial evidence, that there is no reasonable relationship between the development and its impact on the affordable housing supply or that applying the fee would be a taking per the U.S. and State Constitution.

Next Steps

The City Council is being asked to review the draft ordinance and provide staff with direction on modifications that can be incorporated so that a draft ordinance can be brought back for consideration of its introduction.

With the concurrence of the City Council, staff will move forward with publishing a notice indicating consideration of the affordable housing impact fee ordinance at a May 22, 2018 public hearing. If the ordinance is introduced at this meeting, staff will bring the ordinance forward for adoption at the June 12, 2018 City Council meeting.

Options

- 1) Direct staff to move forward with publication of the appropriate noticing and bring forward an affordable housing impact fee ordinance

Advantages: May provide a substantial amount of fee revenue that can be beneficial in achieving affordable housing opportunities.



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Disadvantages: Potentially increase the cost of residential and non-residential development

2) Decline moving forward with an affordable housing impact fee ordinance.

Advantages: Would not result in additional costs in the production of residential and non-residential development.

Disadvantages: Will not provide funds that can be used to provide and pursue affordable housing opportunities.

Recommendation

The staff recommends Option 1.

ORDINANCE NO. 2018-___

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LOS ALTOS ADDING CHAPTER 3.49 TO THE LOS ALTOS MUNICIPAL CODE TO ESTABLISH AFFORDABLE HOUSING IMPACT FEES FOR RESIDENTIAL AND NON-RESIDENTIAL DEVELOPMENT AND ADOPTING CEQA EXEMPTION FINDINGS

WHEREAS, existing local, state and federal resources are insufficient to meet the City of Los Altos' needs for affordable housing; and

WHEREAS, expansion of the supply of affordable housing will require funding to bridge the gap between the costs of developing new affordable housing and the amount new moderate and lower income households can afford to pay; and

WHEREAS, the Mitigation Fee Act, codified at California Government Code sections 66000, *et seq.*, establishes the legal requirements for a jurisdiction to establish and implement a development impact fee program in conformance with constitutional standards; and

WHEREAS, many cities and counties have adopted and imposed affordable housing impact fees on new development to address new developments' impacts on the need for affordable housing; and

WHEREAS, the City Council desires to create an Affordable Housing Impact Fee to fund affordable housing projects within the City and the region; and

WHEREAS, the City's 2015-2023 Housing Element provides that the City will facilitate the development of new affordable housing units, by, among other things, implementing Housing Element Program No. 4.3.7 to consider, study and explore a commercial development affordable housing linkage fee; and

WHEREAS, on May 26, 2016, the City Council expanded the scope of Housing Element Program No. 4.3.7 to include evaluation of an affordable housing linkage fee to include residential development; and

WHEREAS, to establish a basis for an affordable housing impact fee program, the City joined a multi-jurisdictional study organized by the Silicon Valley Community Foundation; and

WHEREAS, the Silicon Valley Community Foundation effort resulted in three reports prepared by Keyser Marston Associates, dated December 2016: (1) Summary, Context Materials and Recommendations Affordable Housing Nexus Studies; (2) Residential Nexus Analysis; and (3) Non-Residential Nexus Analysis (collectively "Nexus Studies"); and

WHEREAS, the Nexus Studies demonstrate that new residential and non-residential developments and additions to structures containing these types of uses generate an increased demand for affordable housing and that these can be mitigated through the imposition of housing impact fees; and

WHEREAS, on March 16, 2017, the City's Planning Commission held a duly noticed public hearing on the program recommendations of the Nexus Study and made recommendations regarding the adoption of an affordable housing linkage fee; and

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WHEREAS, the Nexus Studies and the Planning Commission’s recommendations were presented for public review and comment at the City Council’s regularly scheduled public meeting of May 9, 2017; and

WHEREAS, the City Council considered the Nexus Studies; and

WHEREAS, on _____, 2018, the City Council held a duly noticed public hearing and considered the Affordable Housing Impact Fee, together with the Nexus Studies and all other information relevant to evaluation and adoption of such Fee; and

WHEREAS, this Ordinance is consistent with the Los Altos General Plan as a whole and implements the Los Altos General Plan’s Adopted Housing Element Goal 4, Policy 4.3, Program 4.3.7 for the 2015-2023 by establishing an affordable housing impact fee to help fund the development of new affordable housing units;

NOW THEREFORE, the City Council of the City of Los Altos does hereby ordain as follows:

SECTION 1. AMENDMENT OF CODE: Title 3 of the Los Altos Municipal Code is hereby amended to include a new chapter as follows:

CHAPTER 3.49 – AFFORDABLE HOUSING IMPACT FEES

3.49.010 - Purpose.

This chapter requires the payment of housing impact fees for the impact of residential and non-residential development on the need for affordable housing in the City of Los Altos and to implement the Housing Element of the City’s General Plan and California Government Code Section 65583(c), which expresses the state housing policy that requires cities to assist in the development of adequate housing to meet the needs of lower income households.

3.49.020 - Housing Mitigation Fund.

All housing impact fees shall be placed in the City's Housing Mitigation Fund and used to support the development of affordable housing within the City and the region.

3.49.030 - Applicability.

A. New Construction. Projects that include new residential ownership construction, non-residential construction or new rental housing construction shall be subject to the housing impact fees required in this chapter. Payment of the housing impact fees shall be added as a condition of approval for all development projects subject to this chapter.

B. Pipeline Projects. The following development projects shall be exempt from payment of the housing impact fees required in this chapter:

1. Projects for which a development application pursuant to this title has been filed and deemed complete by (date ordinance is effective); and

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2. Projects that have received final approval pursuant to this title by (date ordinance is effective), and which are subsequently the subject of a pending application for modifications to the approved plans or permit, except that any increase in floor area from the amount already approved shall be subject to the housing impact fees required by this chapter.

3.49.040 –Housing Impact Fee

A. Adoption of Housing Impact Fees. Housing impact fee amounts for each applicable use shall be established by City Council resolution, which may be amended from time to time by Council. The fee amounts shall be adjusted annually based on the Consumer Price Index for all urban consumers for the San Francisco-Oakland-San Jose area unless otherwise modified by council. Such fees shall not exceed the cost of mitigating the impact of developments on the need for housing for lower-income households in the city.

B. Timing of Payment. Housing impact fees shall be paid prior to issuance of the first building permit for the project. A developer may pay all or a portion of the fee owed at any time prior to issuance of the building permit, at the rate in effect at the time payment is made. For phased projects, the amount due shall be paid on a pro rata basis across the entire square footage of the approved development, and each portion shall be paid prior to the issuance of any building permit for each phase.

3.49.050 Housing Impact Fees for Residential Ownership Development.

A. Applicability. A housing impact fee shall be imposed on all new residential ownership developments that result in a net increase of two (2) units or more, regardless of zoning designation of the project site, unless the applicant elects to provide one of the alternatives listed in subsection (D).

B. Calculation of Fee. The amount of the fee, as further described in the fee resolution, is imposed on a per square foot basis for new gross habitable floor area commensurate with the building type (e.g., townhome or condominium). The following formula shall be used in calculating the required housing impact fee for new residential rental housing developments: (New gross habitable square foot area of all units) minus (existing gross habitable square foot area of all units) multiplied by (per square foot fee) equals (total housing impact fee).

C. Gross habitable Square Foot Area. Gross habitable square foot area means the total living area of each dwelling unit within a project measured to the outside of the exterior walls and does not include areas outside of the dwelling units such as common areas, corridors, parking facilities, outside storage lockers and shared laundry facilities.

D. Alternatives In Lieu of a Housing Impact Fee. As an alternative to paying the affordable housing impact fee for residential ownership developments, a developer may request to provide affordable ownership units on the project site, dedicate land for affordable housing, or provide affordable units off-site, as detailed in this section.

1. On-site units. A developer may request to mitigate the housing impacts through construction of affordable residential ownership units on the subject development site at the numbers indicated at Chapter 14.28.

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2. Off-site units or dedication of land. As an additional alternative, a developer may request to designate affordable units in an off-site location or dedicate land for the construction of affordable units. The City priority shall be for a location that is accessible to public transit. Any off-site units shall be either new or renovated to near-new conditions. Such requests shall be granted in the sole discretion of the City Council if the City Council determines that the proposed alternative will mitigate the impact of the project on the need for affordable housing.

3. In calculating the number of required affordable units either on-site or off-site, any fraction of a whole unit shall be satisfied by either developing one additional affordable unit or by paying the remaining fee amount as further described in the fee resolution.

4. All affordable units developed either on-site or off-site shall be subject to the City's standard Affordable Housing Agreement and Deed Restriction.

5. The applicant must enter into an Affordable Housing Developer Agreement with the City to be recorded against the property prior to recordation of a final or parcel map or issuance of any building permit, acknowledging that the affordable units or land dedication are provided in consideration for a direct financial contribution from the City in the form of a waiver of the housing impact fee.

E. The City Council may approve this request if the proposed alternative forms of affordable housing opportunities in the City are equal to or greater than the payment of the housing impact fee.

3.49.060 Housing Impact Fees for Multiple-Family Residential Rental Development.

A. Applicability. A housing impact fee shall be imposed on all new residential rental developments that result in a net increase of two (2) units or more, regardless of zoning designation of the project site, unless the applicant elects to provide one of the alternatives listed in subsection (D). For purposes of this section, new market-rate rental housing developments shall include developments that have recorded a condominium map but the developer intends to initially rent the units.

B. Calculation of Fee. The amount of the fee, as further described in the fee resolution, is imposed on a per square foot basis for new gross habitable floor area commensurate with the building type (e.g., townhome or condominium). The following formula below shall be used in calculating the required housing impact fee for new residential rental housing developments: (New gross habitable square foot area of all units) minus (existing gross habitable square foot area of all units) multiplied by (per square foot fee) equals (total housing impact fee).

C. Gross habitable Square Foot Area. Gross habitable square foot area means the total living area of each dwelling unit within a project measured to the outside of the exterior walls and does not include areas outside of the dwelling units such as common areas, corridors, parking facilities, outside storage lockers and shared laundry facilities.

D. Alternatives In Lieu of a Housing Impact Fee. As an alternative to paying the affordable housing impact fee for residential rental developments, a developer may request to provide affordable

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units on the project site, dedicate land for affordable housing, or provide affordable units off-site, as detailed in this section.

1. On-site units. A developer may request to mitigate the housing impacts through construction of affordable residential rental units on the subject development site at the numbers indicated at Chapter 14.28.

2. Off-site units or dedication of land. As an additional alternative, a developer may request to designate affordable units in an off-site location or to dedicate land for the construction of affordable units. The City priority shall be for a location that is accessible to public transit. Any off-site units shall be either new or renovated to near-new conditions. Such requests shall be granted in the sole discretion of the City Council if the City Council determines that the proposed alternative will mitigate the impact of the project on the need for affordable housing.

3. In calculating the number of required affordable rental units either on-site or off-site, any fraction of a whole unit shall be satisfied by either developing one additional affordable unit or by paying the remaining fee amount as further described in the fee resolution.

4. All affordable units developed either on-site or off-site shall be subject to the City's standard Affordable Housing Agreement and Deed Restriction.

5. The applicant must enter into an Affordable Housing Developer Agreement with the City to be recorded against the property prior to recordation of a final or parcel map or issuance of any building permit, acknowledging that the affordable units or land dedication are provided in consideration for a direct financial contribution from the City in the form of a waiver of the housing impact fee.

E. The City Council may approve this request if the proposed alternative forms of affordable housing opportunities in the City are equal to or greater than the payment of the housing impact fee.

3.49.070 Housing Impact Fees for Non-residential Development.

A. Applicability. A non-residential housing impact fee shall be imposed on all new construction of commercial, office, retail and hotel/motel development projects that result in a net increase of 500 square feet or greater of new floor area, regardless of zoning designation of the project site, unless the applicant elects to provide one of the alternatives listed in subsection (D).

B. Calculation of Fee. The amount of the housing impact fee, as further described in the fee resolution, is imposed on a per square foot basis for new gross floor area. The following formula below shall be used in calculating the amount of the housing impact fee: (Gross square feet non-residential floor area) minus (existing square feet floor area) multiplied by (per square foot fee) equals (total housing impact fee).

C. Exemptions to New Gross Floor Area. The following areas are exempt from the new gross floor area used in housing impact fee calculations for non-residential developments:

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1. Any incidental and accessory storage, structures or appurtenances, such as sheds, trash enclosures, ground-mounted equipment enclosures, garden features, trellises or shade structures;

2. Architectural design features not utilized for occupancy or storage; and

3. Existing floor area square footage of structures that were vacated or demolished no more than 12 months prior to the filing date of the development application.

D. Alternatives In Lieu of a Housing Impact Fee. As an alternative to paying the affordable housing impact fee, a developer may request the following:

1. On-site units. A developer may request to mitigate the housing impacts through construction of affordable residential units on the subject development site. If applicable, the number of affordable units shall be those indicated at Chapter 14.28.

2. Off-site units or dedication of land. As an additional alternative, a developer may request to designate affordable units in an off-site location or to dedicate land for the construction of affordable units. The City priority shall be for a location that is accessible to public transit. Any off-site units shall be either new or renovated to near-new conditions. Such requests shall be granted in the sole discretion of the City Council if the City Council determines that the proposed alternative will mitigate the impact of the project on the need for affordable housing.

3. In calculating the number of required affordable units either on-site or off-site, any fraction of a whole unit shall be satisfied by either developing one additional affordable unit or by paying the remaining fee amount as further described in the fee resolution.

4. All affordable units developed either on-site or off-site shall be subject to the City's standard Affordable Housing Agreement and Deed Restriction.

5. The applicant must enter into an Affordable Housing Developer Agreement with the City to be recorded against the property prior to recordation of a final or parcel map or issuance of any building permit, acknowledging that the affordable units or land dedication are provided in consideration for a direct financial contribution from the City in the form of a waiver of the housing impact fee.

E. The City Council may approve this request if the proposed alternative forms of affordable housing opportunities in the City are equal to or greater than the payment of the affordable housing impact fee.

3.49.080 Waiver.

Notwithstanding any other provision of this chapter, the requirement to pay the housing impact fee may be waived, adjusted or reduced by the City Council if an applicant shows, based on substantial evidence, that there is no reasonable relationship between the impact of the proposed development and the requirement to pay the housing impact fee, or that applying the requirements of this chapter would take property in violation of the United States Constitution or California Constitution or would result in any other unconstitutional result.

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3.49.090 Enforcement.

The provisions of this chapter shall apply to all agents, successors and assigns of an applicant proposing or constructing a development governed by this chapter. The City may institute any appropriate legal actions or proceedings necessary to ensure compliance herewith, including but not limited to, actions to revoke, deny or suspend any permit, including a development approval, building permit or certificate of occupancy. The City shall be entitled to costs and expenses for enforcement of the provisions of this chapter, or any agreement pursuant thereto, as awarded by the court, including reasonable attorneys' fees.

3.49.100 Severability.

If any portion of this chapter is held to be invalid, unconstitutional, or unenforceable by a court of competent jurisdiction, that decision will not affect the validity of the remaining portions of this zoning code. The City Council declares that this chapter and each portion would have been adopted without regard to whether any portion of this chapter would be later declared invalid, unconstitutional, or unenforceable.

SECTION 2. CONSTITUTIONALITY. If any section, subsection, sentence, clause or phrase of this code is for any reason held to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this code.

SECTION 3. CEQA - EXEMPTION. The City Council finds and determines the adoption of this Ordinance is (1) not a Project under the California Environmental Quality Act (CEQA) and is therefore exempt pursuant to Title 14 of the California Code of Regulations, Section 15378(b)(4) because it constitutes a governmental fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment; (2) statutorily exempt pursuant to CEQA Guidelines section 15267(Financial Assistance to Low or Moderate Income Housing; (3) not intended to apply to specifically identified affordable housing projects and as such it is speculative to evaluate any such future project now and, moreover, they will be subject to appropriate environmental review at such time as approvals for those affordable housing project are considered; and/or (4) not intended to, nor does it, provide CEQA clearance for future development-related projects by mere establishment or payment of the fees. Each of the foregoing provides a separate and independent basis for CEQA compliance and, when viewed collectively, provides an overall basis for CEQA compliance.

SECTION 4. PUBLICATION. This ordinance shall be published as provided in Government Code section 36933.

SECTION 5. EFFECTIVE DATE. This ordinance shall be effective upon the commencement of the thirty-first day following the adoption date.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on ____, 2018 and was thereafter, at a regular meeting held on ____, 2018 passed and adopted by the following vote:

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AYES:

NOES:

ABSENT:

ABSTAIN:

Jean Mordo, MAYOR

Attest:

Jon Maginot, CMC, CITY CLERK



KEYSER MARSTON ASSOCIATES

SUMMARY, CONTEXT MATERIALS AND RECOMMENDATIONS AFFORDABLE HOUSING NEXUS STUDIES

Prepared for:
City of Los Altos

Prepared by:
Keyser Marston Associates, Inc.

December 2016

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ATTACHMENT A – RESIDENTIAL NEXUS ANALYSIS REPORT

ATTACHMENT B – NON-RESIDENTIAL NEXUS ANALYSIS REPORT

I. INTRODUCTION

This Summary, Context Materials, and Recommendations report (“Summary Report”) provides a concise version of the affordable housing nexus studies prepared by KMA and presents analyses designed to provide context for policy decisions. It also outlines recommendations for the City of Los Altos regarding updates to the City’s affordable housing requirements for residential development and consideration of a potential new affordable housing impact fee for non-residential development.

The report has been prepared by Keyser Marston Associates, Inc. (KMA) for the City of Los Altos, pursuant to contracts both parties have with the Silicon Valley Community Foundation. The report was prepared as part of a coordinated work program for twelve jurisdictions in Alameda and Santa Clara Counties. Silicon Valley Community Foundation with Baird + Driskell Community Planners organized and facilitated this multi-jurisdiction effort. Silicon Valley Community Foundation, which engaged KMA to prepare the analyses, serves as the main contracting entity with each participating jurisdiction, and has provided funding support for coordination and administration of the effort.

Two separate nexus technical reports are attached to this Summary Report, Attachment A: Residential Nexus Analysis and Attachment B: Non-Residential Nexus Analysis. The two nexus reports provide the technical analyses and documentation to support adoption of affordable housing impact fees on residential and non-residential development in the City of Los Altos.

A. Background and Context

The City of Los Altos has an existing inclusionary housing policy requiring residential projects in the City to include a 10% share of units as affordable. The City does not have an affordable housing requirement that applies to non-residential projects; however, the analyses that have been prepared for the City will enable consideration of a new affordable housing impact fee applicable to non-residential development in the City as well.

The City’s Multiple Family Affordable Housing Regulations were adopted in 1995 and updated in 2009 (Code Chapter 14.28). The regulations require that projects exceeding four units per acre include at least 10% of the units (rounded to the next whole number) at affordable prices. The regulations apply to projects with five or more units. The inclusionary program has not included a fee option. Since the 2009 *Palmer* court decision (described further in the Residential Nexus Analysis), the City has not had the ability to mandate compliance with its inclusionary requirements for rental projects. However, the City has continued to implement its inclusionary program for rental projects through voluntary agreements with projects also receiving a density bonus under State Density Bonus law. It is possible that future legislation could restore the ability of California cities to apply inclusionary requirements to rental projects.

The analyses summarized in this report will enable the City to consider adoption of an affordable housing impact fee applicable to rental apartments, a jobs housing linkage fee applicable to non-residential development and other updates to its affordable housing requirements.

B. Organization of this Report

This report is organized into the following sections:

- Section I provides an introduction;
- Section II presents a summary of KMA's findings and recommendations;
- Section III summarizes the nexus analyses;
- Section IV presents analyses and materials prepared to provide context for policy decisions, including:
 - A. Multifamily Apartment Financial Feasibility Analysis – presents the analysis and findings of the real estate financial feasibility analysis for apartments;
 - B. On-site compliance cost analysis – analysis of the forgone revenue experienced by market rate residential projects in complying with the City's inclusionary requirements;
 - C. Residential affordable housing requirements in other jurisdictions – provides a summary of existing inclusionary and impact fee requirements for 18 jurisdictions in Alameda and Santa Clara counties;
 - D. Non-Residential Development Costs – Analysis of development costs for various types of non-residential development as context for consideration of potential impact fee levels for non-residential development; and
 - E. Jobs housing linkage fee programs in other jurisdictions – provides information regarding 34 adopted linkage fee programs in jurisdictions throughout the Bay Area and elsewhere in California.
- Attachment A is the full Residential Nexus Analysis report.
- Attachment B is the full Non-Residential Nexus Analysis report.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

In this section, KMA provides a summary of the analysis findings and recommendations for the City of Los Altos' consideration for updates to the City's affordable housing requirements applicable to residential and non-residential development. Recommendations reflect consideration of the following factors:

1. The findings of the nexus analysis. The nexus study establishes the maximum fee that may be charged to mitigate the impacts of new development on the need for affordable housing. Impact fees for rentals and non-residential development are limited to the maximums identified by the nexus. For-sale inclusionary requirements are generally not bound by nexus findings.
2. The City's policy objectives specified in the Housing Element.
3. The current requirements in neighboring jurisdictions.
4. Setting fees and requirements high enough to support a meaningful contribution to affordable housing in Los Altos.
5. Setting a fee low enough to not discourage development.

A. Residential Findings and Recommendations

KMA's recommendations for updates to the City's Affordable Housing Ordinance, including a new impact fee for rentals, are presented in this section, along with a summary of the factors considered by KMA.

1. Nexus Analysis Findings

The findings of the residential nexus analysis are summarized below. The findings per square foot refer to net residential area (exclusive of parking, corridors and other common areas).

Maximum Supported Residential Impact Fees, City of Los Altos						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Per Market Rate Unit	\$137,500	\$104,400	\$71,300	\$67,800	\$53,400	\$48,000
Per Square Foot	\$39.40	\$52.30	\$47.50	\$52.10	\$48.50	\$53.30

Source: Attachment A, Residential Nexus Analysis.

KMA recommends that impact fees for rental projects be set below the levels shown above and that in-lieu fees applicable to for-sale projects that have ten or fewer units in the project be set below the levels identified above.

2. Affordable Housing Requirements in Other Jurisdictions

KMA assembled and summarized the affordable housing requirements for 18 jurisdictions in Santa Clara and Alameda Counties including those participating in the multi jurisdiction work program plus nine additional cities selected by the participants. The following is a condensed version focusing on selected comparisons. A complete summary is provided in Section IV, Table 3.

Rentals: Overview of Adopted Rental Housing Impact Fees in Santa Clara County

The chart below shows selected examples of cities that have adopted impact fees for rental development following the 2009 *Palmer* decision (which eliminated the ability to apply inclusionary requirements to rental projects). Requirements are clustered around \$17 per square foot, with Mountain View, Sunnyvale, and Fremont all following San Jose’s lead in establishing a rental impact fee requirement at this level. Cupertino’s fees are \$20 per square foot for projects up to 35 dwelling units per acre and \$25 per square foot for projects over 35 units per acre. The minimum size project subject to the fee ranges from five units for Mountain View down to single units for Cupertino. Los Altos does not currently have an impact fee for rentals.

Impact Fees in Other Jurisdictions – Rental Units		
<i>City</i>	<i>Impact Fee</i>	<i>Min. Project Size Subject to Fee</i>
Cupertino	\$20 / sq. ft. (\$25 for projects over 35 du/acre)	1 unit
San Jose	\$17/sq. ft.	3 units
Mountain View	\$17/sq. ft.	5 units
Sunnyvale	\$17/sq. ft. (\$8.50 for projects with 4 – 7 units)	4 units
Fremont	\$17.50/sq. ft.	2 units

*See Table 3 for more detail.

Ownership Affordable Housing Requirements

For ownership projects, Los Altos’ onsite requirements are fairly consistent with the other cities’. The onsite requirements for the cities analyzed are in the 10% – 15% range, with the exception of Fremont, which has a combined onsite obligation and fee payment. The following table briefly summarizes the programs.

Inclusionary Requirements in Other Jurisdictions - Ownership Units				
<i>City</i>	<i>Percent</i>	<i>Affordability Level</i>	<i>Fee</i>	<i>Fee by Right?</i>
Los Altos	10%	Low and Moderate	None	N/A
Campbell	15%	Low and Moderate	\$34.50	Only projects 6 du/ ac. or less
Santa Clara	10%	Very Low to Moderate	None	N/A
Cupertino	15%	½ Moderate, ½ Median	\$15 detached; \$16.50 attached \$20 multifamily	Projects under 7 units only
San Jose*	15%	Moderate	Affordability gap based on attached unit re-sales.	Yes
Mountain View	10%	Median	3% of sales price	Projects under 10 units only
Sunnyvale	12.5%	Moderate	7% of sales price	Projects under 20 units only
Fremont	Attached 3.5% + fee Detached: 4.5% + fee	Moderate	With on-site units: Attached: \$18.50 psf Detached: \$17.50 psf If no on-site units: Attached: \$27 psf Detached: \$26 psf	Yes

*Suspended during litigation but to be reinstated in 2016
See Table 3 for more detail.

3. Multifamily Apartment Financial Feasibility

The analysis indicates that the economics of multifamily rental projects is currently robust and projects are generally feasible in the West Valley. Even in a strong market, rising land costs tend to absorb any “surplus” projects may have in their pro formas; however, the market is able to adjust to new costs such as increased fees in a variety of ways. One way markets can adjust is through downward pressure on land prices created when developers price new fees into the economics of their projects and adjust what they can afford to pay for land. When market rents are rising, this condition helps projects absorb increased fees. The table below illustrates how relatively modest improvements in project economics are sufficient to absorb illustrative fee levels of \$10, \$20, \$30 and \$40 per square foot. Calculations are also shown for each \$1 in new fees so calculations can be made for any fee level that may be considered.

Potential Market Adjustments to Absorb New Fees

Potential Market Adjustments to Absorb Illustrative Fee Levels					
	Each \$1 Fee	\$10 Fee	\$20 Fee	\$30 Fee	\$40 Fee
Increase in Rents/Income	0.11%	1.1%	2.2%	3.3%	4.5%
Decrease in Direct Costs	0.43%	4.3%	8.7%	13.0%	17.4%
Decrease in Land Values (based on \$119/sf)	0.42%	4.2%	8.5%	12.7%	16.9%

Adjustments are not additive. Each would independently be sufficient to absorb new fees. Depending on the market cycle and other factors, a combination of the above market adjustments would be expected to contribute in absorbing a new fee.

4. Market Context

Los Altos has the highest median home price in Santa Clara County, exceeding \$2.6 million in December 2015. With many recently built single family units in excess of 4,000 square feet, the total price of new units is often over \$4 million, with values averaging over \$1,000 psf. The median price has increased substantially every year since 2009.

There have also been a handful of condominium and townhome projects in recent years. Sales prices for these projects have averaged in the range of \$1,000 per square foot. Although, given there are relatively few projects on which to base estimates and to ensure the analysis captures the least expensive units likely to be built in Los Altos, the analysis uses a more conservative sales price estimate of approximately \$800 psf for townhomes and \$850 psf for condominiums.

There has been an absence of new rental apartment projects in recent years in Los Altos, but should they be developed, evidence of market strength in the neighboring communities would suggest rents on the order \$3,600 for a 900 square foot unit would be achievable.

5. Program Recommendations

Following are KMA's recommendations for updating the affordable housing requirements in Los Altos. These recommendations are based on Los Altos' residential market, the multifamily financial feasibility analysis, nexus analysis results, input from City staff, and programs in nearby jurisdictions.

- a. *For-Sale Requirement* – Maintain Los Altos' 10% on-site requirement as a minimum. Currently the City's program does not include a fee option as an alternative to providing affordable units on-site. If the City wishes to add a fee option, consider a fee level which approximates the cost of providing affordable units on-site as quantified in Table 2 of this report. In terms of fee structure, consider setting fees as a percentage of sales price as is the practice in the nearby cities of Palo Alto, Mountain View, Sunnyvale and Menlo Park. The cost of complying with the City's 10% requirement equates to a fee level of 8% - 9% of sales price for single family units and 7% of sales price for attached units based on the analysis in

Table 2. It should be noted that, even if a fee option is offered, some projects would likely continue to provide units on-site for purposes of qualifying for the State Density Bonus.

- b. *Fee for Small Projects (4 units or less)* – For small projects, potentially including single units, consider a fee in the range of \$40 per square foot. For lower density single family projects with 4 dwelling units per acre or less, a fee in the range of \$35 per square foot is recommended. The indicated fee levels are based on the maximums supported by the nexus. These fee levels are well below the cost associated with complying with the City’s existing on-site affordable unit requirements applicable to projects with five or more units. A phase in of the requirement based on the number of units in the project could be considered if there is a desire to charge one and two unit projects a lesser amount.
- c. *Lower-Density For-Sale Projects (4 units per acre or less)* – Currently the City exempts projects of four dwelling units per acre or less from the City’s 10% inclusionary requirement. These projects have some of the highest values and generally can support a strong affordability requirement; however, on-site units are often not a good fit. One option is to apply the City’s 10% requirement but allow payment of an in-lieu fee as an alternative. If a generally applicable fee is to be introduced, it could be applied to lower density projects as well, or a fee option could be included just for lower density projects set at, say, 8% - 9% of sales price. Another option would be to establish an impact fee for lower density projects (rather than an in-lieu fee), which could be up to \$35 per square foot based on the nexus analysis findings, a requirement far less than 8% - 9% of sales price.
- d. *Additions* – The nexus analysis enables the City to consider applying affordable housing impact fees to additions to existing structures and the incremental residential area resulting from “Teardown / Rebuild” activity. San Carlos is an example of a program that applies a reduced fee for additions over 1,000 square feet. However, charging for additions is not common. If the City applies fees to additions, consider fees at a similar per square foot fee level to that applied small projects (see above) or perhaps a reduced rate. Inclusion of a minimum size threshold for fee application will avoid the administrative burden of charging very small additions.
- e. *Rentals Requirements* – We recommend that an impact fee be added for rental projects and for the City to continue encouraging on-site units as an alternative to the fee. Despite the Palmer decision, recent projects have complied with the City’s on-site requirements to become eligible for a State Density Bonus. Even with introduction of a new fee, the on-site solution is likely to remain an attractive option for projects due to the State Density Bonus benefit. Setting the fee near the nexus maximums, up to \$45 per square foot, would provide added encouragement for projects to provide on-site units as an alternative to paying the fee. Setting a lower fee more consistent with nearby jurisdictions, say in the \$20 to \$25 PSF range, would likely result in projects choosing to pay the fee in situations where a State Density Bonus is not being sought.

B. Non-Residential Affordable Housing Impact Fees

The analysis prepared by KMA will enable the City of Los Altos to consider adoption of a new affordable housing fee applicable to non-residential development in the City. The following section provides KMA's recommendations regarding a fee range should the City choose to move forward with establishing a new jobs housing linkage fee, along with a summary of the factors considered by KMA.

1. Nexus Analysis Findings

The KMA non-residential nexus analysis found very high supportable fee levels. The high fee levels supported by the analysis are not unusual for high cost areas such as Los Altos. The nexus analysis establishes only the maximums for impact fees and will bear little relationship to the fee levels the City may ultimately select. The table below indicates the nexus analysis results.

Building Type	Maximum Supported Fee Per Square Foot
Office	\$140.10
Retail	\$260.70
Hotel	\$125.50

Note: Nexus findings are not recommended fee levels.
See Attachment B, Non-Residential Nexus Analysis for detail.

In our opinion, fee levels for cities should be selected based on a combination of the strength of the local real estate for the building types that will pay the fee, and local policy objectives. We also believe it is appropriate to take into account the fee levels in neighboring jurisdictions and cities that are comparable to Los Altos in real estate demand.

2. Fees in Other Jurisdictions

The chart below summarizes fee levels for jurisdictions in Santa Clara County and the Peninsula that have adopted non-residential fees. Neighboring jurisdictions to Los Altos have some of the highest affordable housing fees in the Bay Area, including Mountain View, Palo Alto, and Sunnyvale with fees on office at \$25, \$20, and \$15 psf, respectively. Other nearby cities that do not currently have affordable housing fees on non-residential development but may consider a new fee as part of this multi-jurisdiction effort include Santa Clara, Campbell, Saratoga, Fremont, Milpitas, and Santa Clara County. San Jose has determined that it will not pursue a fee on non-residential development at this time. More details can be found in Section IV and Table 4.

Non-Residential Housing Impact Fees – Santa Clara Co. & Peninsula

Non-Residential Fees	Office \$/SF	Retail \$/SF	Hotel \$/SF	Industrial \$/SF
Mountain View	\$25.00	\$2.68	\$2.68	\$25.00
Cupertino	\$20.00	\$10.00	\$10.00	\$20.00
Palo Alto	\$19.85	\$19.85	\$19.85	\$19.85
Sunnyvale	\$15.00	\$7.50	\$7.50	\$15.00
San Francisco	\$24.61	\$22.96	\$18.42	\$19.34
Redwood City	\$20.00	\$5.00	\$5.00	N/A
Menlo Park	\$15.57	\$8.45	\$8.45	\$8.45

See Table 4 for more details including features such as exemptions and size thresholds.

3. Total Development Costs

KMA estimated the total development cost associated with each building type and examined fee levels in the context of total costs. Total costs include construction, all permits and fees, land, financing and other. This facilitates an evaluation of whether the amount is likely to affect development decisions. Four non-residential prototype projects were selected for review of total development costs. The prototypes include office, hotel, retail, and light industrial. Los Altos is not anticipating light industrial development in the future and therefore that category was not included in this summary. The cost estimates were prepared based on local information and our firm's extensive work with real estate projects throughout Silicon Valley and the Bay Area. More detail on the analysis can be found in Section IV. The results are summarized below:

Total Development Costs – Non-Residential	
Building Type	Cost
Office	\$525 - \$625 per sq.ft.
Hotel	\$325 - \$425 per sq.ft.
Retail / Restaurant / Service	\$400 - \$500 per sq.ft.

One useful way to evaluate alternative fee levels is to examine them as a percent of total development costs. For example, at 2% to 5% of costs, we would see the following fee levels:

Fees as a Percent of Development Costs				
Building Type	2%	3%	4%	5%
Office	\$11 psf	\$17 psf	\$23 psf	\$29 psf
Hotel	\$7 psf	\$11 psf	\$15 psf	\$19 psf
Retail / Restaurant	\$9 psf	\$13 psf	\$18 psf	\$22 psf

4. Market Context

Los Altos non-residential development activity is predominantly smaller scale and locally serving in nature, consistent with the City's status as a predominantly residential community. The high income of the population makes the City a desirable location for retailers even if not a major shopping destination. The City is not a major tech center or office center, but what office space there is commands premium rent levels.

5. Recommended Fee Levels for Non-Residential

Given the maximums established by the nexus analysis, the strength of Los Altos' office, retail and hotel markets, and the fees in neighboring jurisdictions, should the City decide to proceed with a non-residential affordable housing fee, KMA recommends consideration of fees within the range of \$20 to \$25 per square foot for office and \$10 to \$15 per square foot for other non-residential development. The table below presents the recommended range:

KMA Recommended Fee Range, Non-Residential, City of Los Altos	
<i>Land Use</i>	<i>Recommended Fee</i>
Office	\$20.00 to \$25.00 psf
Other Non-Residential	\$10.00 to \$15.00 psf

III. SUMMARY OF NEXUS ANALYSES

This section provides a concise summary of the residential and non-residential nexus analyses prepared for the City of Los Altos. The analyses provide documentation necessary for adoption of new affordable housing impact fees applicable to residential and non-residential development. The analyses establish maximum supportable impact fee levels based on the impact new residential and non-residential development has on the need for affordable housing. Findings represent the results of an impact analysis only and are not recommended fee levels.

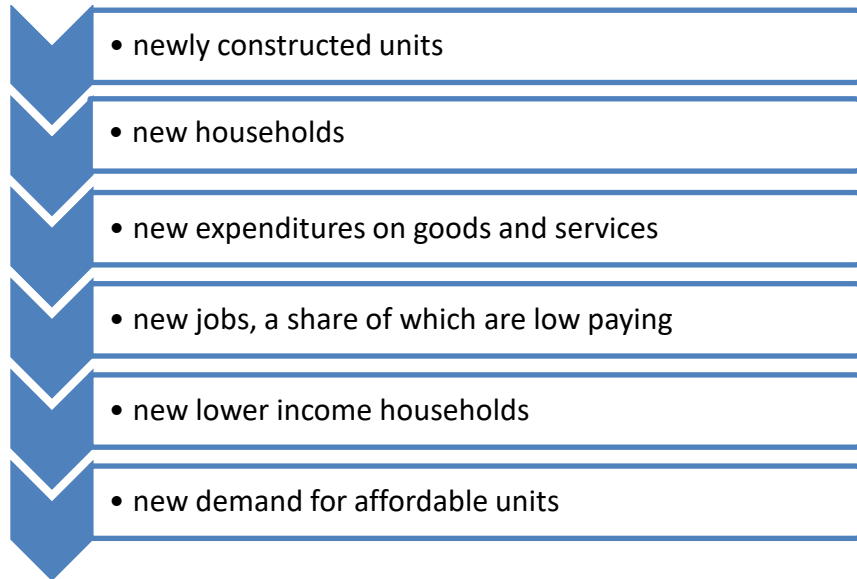
While nexus findings represent upper limits for impact fee-type requirements, inclusionary program requirements, including applicable in-lieu fees, are not bound by nexus findings based on the ruling by the California Supreme Court in the San Jose inclusionary housing case. Under current law, inclusionary units cannot be mandated for rental projects; however, this could change with future State legislation.

Full documentation of the analyses can be found in the reports titled Residential Nexus Analysis and Non-Residential Nexus Analysis.

A. Residential Nexus Analysis Summary

The residential nexus analysis establishes maximum supportable impact fee levels applicable to residential development. The underlying concept of the residential nexus analysis is that the newly constructed units represent net new households in Los Altos. These households represent new income in the City that will consume goods and services, either through purchases of goods and services or “consumption” of governmental services. New consumption generates new local jobs; a portion of the new jobs are at lower compensation levels; low compensation jobs relate to lower income households that cannot afford market rate units in Los Altos and therefore need affordable housing.

Nexus Analysis Concept



1. Market Rate Residential Prototypes

In collaboration with City staff, a total of six market rate residential prototypes were selected: four ownership prototypes and two rental prototypes. The intent of the selected prototypes is to identify representative development prototypes likely to be developed in Los Altos in the immediate to mid-term future.

A summary of the six residential prototypes is presented below. Market survey data, City planning documents and other sources were used to develop the information. Market sales prices and rent levels were estimated based on KMA's market research.

Prototypical Residential Units for City of Los Altos						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Avg. Unit Size	3,500 SF	2,000 SF	1,500 SF	1,300 SF	1,100 SF	900 SF
Avg. No. of Bedrooms	4.00	3.00	2.50	3.00	2.00	1.50
Avg. Sales Price / Rent Per Square Foot	\$3,500,000 \$1,000 /SF	\$2,200,000 \$1,100 /SF	\$1,200,000 \$800 /SF	\$1,100,000 \$846 /SF	\$4,000 /mo. \$3.64 /SF	\$3,600 /mo. \$4.00 /SF

Estimates for the Townhome and Condominium are somewhat below sales prices achieved in recent projects to ensure that the analysis captures the least expensive new market rate

ownership units likely to be built in Los Altos. The analysis and findings are conservative given many projects are likely to exceed these estimates.

2. Household Expenditures and Job Generation

Using the sales price or rent levels applicable to each of the six market rate residential prototypes, KMA estimates the household income of the purchasing/renting household. Household income is then translated to income available for expenditures after deducting taxes, savings and household debt, which becomes the input to the IMPLAN model. The IMPLAN model is used to estimate the employment generated by the new household spending. The IMPLAN model is an economic model widely used for the past 35 years to quantify the impacts of changes in a local economy. For ease of presentation the analysis is conducted based on an assumed project size of 100 market rate units.

A 20% downward adjustment is made to the IMPLAN employment estimates based on the expectation that a portion of jobs may be filled by existing workers who already have housing locally. The 20% adjustment is based upon job losses in declining sectors of the local economy over a historic period. Workers from declining sectors are assumed to fill a portion of the new jobs in sectors that serve residents.

The translation from market rate sales prices and rent levels for the prototypical units to the estimated number of jobs in sectors such as retail, restaurants, health care and others providing goods and services to new residents is summarized in the table below.

Household Income, Expenditures, Job Generation, and Net New Worker Households						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Avg. Sales Price / Rent	\$3,500,000	\$2,200,000	\$1,200,000	\$1,100,000	\$4,000	\$3,600
Gross Household Income	\$616,000	\$353,000	\$237,000	\$225,000	\$164,000	\$147,000
Net Annual Income available	\$264,900	\$201,200	\$137,500	\$130,500	\$103,000	\$94,000
Total Jobs Generated [from IMPLAN] (100 Units)	159.7	121.3	82.9	78.7	62.1	55.8
Net New Jobs after 20% reduction for declining industries (100 units)	127.8	97.0	66.3	62.9	49.7	44.7

See Attachment A Residential Nexus Analysis report for full documentation.

3. Compensation Levels of Jobs and Household Income

The output of the IMPLAN model – the numbers of jobs by industry – is then entered into the Keyser Marston Associates jobs housing nexus analysis model to quantify the compensation levels of new jobs and the income of the new worker households. The KMA model sorts the jobs by industry into jobs by occupation, based on national data, and then attaches local wage distribution data to the occupations, using recent Santa Clara County data from the California Employment Development Department (EDD). The KMA model also converts the number of employees to the number of employee households, recognizing that there is, on average, more than one worker per household, and thus the number of housing units in demand for new workers is reduced. For purposes of the adjustment from jobs to housing units, the average of 1.72 workers per working household in Santa Clara County is used.

Adjustment from No. of Workers to No. of Households						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Net New Jobs (100 Units)	127.8	97.0	66.3	62.9	49.7	44.7
Divide by No. of Workers per Worker Household	1.72	1.72	1.72	1.72	1.72	1.72
Net new worker households (100 Units)	74.4	56.5	38.6	36.7	28.9	26.0

The output of the model is the number of new worker households by income level (expressed in relation to the Area Median Income, or AMI) attributable to the new residential units and new households in Los Altos. Four categories of addressed: Extremely Low (under 30% of AMI), Very Low (30% to 50% of AMI), Low (50% to 80% of AMI) and Moderate (80% to 120% of AMI).

Following are the numbers of worker households by income level associated with the Los Altos prototype units.

New Worker Households per 100 Market Rate Units						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Extremely Low (0%-30% AMI)	13.3	10.1	6.9	6.5	5.2	4.7
Very Low (30%-50% AMI)	20.1	15.3	10.4	9.9	7.8	7.0
Low (50%-80% AMI)	17.1	13.0	8.9	8.4	6.6	5.9
Moderate (80%-120% AMI)	10.9	8.3	5.7	5.4	4.2	3.8
Total, Less than 120% AMI	61.4	46.7	31.9	30.3	23.9	21.4
Greater than 120% AMI	13.0	9.9	6.7	6.4	5.0	4.6
Total, New Households	74.4	56.5	38.6	36.7	28.9	26.0

See Attachment A Residential Nexus Analysis report for full documentation.

Housing demand is distributed across the lower income tiers. The finding that the greatest number of households occurs in the Very Low and Low income tiers is driven by the fact that a large share of the jobs most directly associated with consumer spending tend to be low-paying, such as food preparation, administrative, and retail sales occupations.

4. Nexus Supported Maximum Fee Levels

The next step in the nexus analysis takes the number of households in the lower income categories associated with the market rate units and identifies the total subsidy required to make housing affordable. This is done for each of the prototype units to establish the ‘total nexus cost,’ which is the Maximum Supported Impact Fee conclusion of the analysis. For the purposes of the analysis, KMA assumes that affordable housing fee revenues will be used to subsidize affordable rental units for households earning less than 80% of median income, and to subsidize affordable ownership units for households earning between 80% and 120% of median income.

Affordability gaps, or the needed subsidy amounts, are calculated for each of the income tiers. Then the affordability gaps (which is the difference between total development cost and unit value based on the affordable rent or sales price) are multiplied by the number of households in each income tier to produce the total nexus cost (i.e. mitigation cost.).

The Maximum Supported Impact Fees are calculated at the per-unit level and the per-square-foot level and are shown in the table below. The findings per square foot refer to net residential area (exclusive of parking, corridors and other common areas).

Maximum Supported Residential Impact Fees, City of Los Altos						
	<i>Single Family Detached</i>	<i>Single Family - Small Lot</i>	<i>Townhome</i>	<i>Condominium</i>	<i>Apartments - Lower Density</i>	<i>Apartments - Higher Density</i>
Per Market Rate Unit	\$137,500	\$104,400	\$71,300	\$67,800	\$53,400	\$48,000
Per Square Foot	\$39.40	\$52.30	\$47.50	\$52.10	\$48.50	\$53.30

These costs express the maximum supported impact fees for the six residential prototype developments in Los Altos. These findings are **not** recommended fee levels.

B. Non-Residential Nexus Analysis Summary

The non-residential nexus analysis quantifies and documents the impact of the construction of new workplace buildings (office, retail, hotels, etc.) on the demand for affordable housing. It is conducted to support the consideration of a new affordable housing impact fee or commercial linkage fee applicable to non-residential development in the City of Los Altos.

Full documentation of the nexus analysis is contained in the report entitled Non-Residential Nexus Analysis.

The workplace buildings that are the subject of this analysis represent a cross section of typical commercial buildings developed in Los Altos in recent years and expected to be built in the near term future. For purposes of the analysis, the following three building types were identified:

- Office
- Hotel
- Retail / Restaurant / Service

The nexus analysis links new non-residential buildings with new workers; these workers demand additional housing, a portion of which needs to be affordable to the workers in lower income households. The analysis begins by assuming a 100,000 square foot building for each of the three building types and then makes the following calculations:

- The total number of employees working in the building is estimated based on average employment density data.
- Occupation and income information for typical job types in the building are used to calculate how many of those jobs pay compensation at the levels addressed in the analysis. Compensation data is from California EDD and is specific to Santa Clara County. Worker occupations by building type are derived from the 2014 Occupational Employment Survey by the U.S. Bureau of Labor Statistics.
- New jobs are adjusted to new households, using Santa Clara County demographics on the number of workers per household. We know from the Census that many workers are members of households where more than one person is employed and there is also a range of household sizes; we use factors derived from the Census to translate the number of workers into households of various size. Household income is calculated depending on the number of workers per household.
- The number of Extremely Low-, Very Low-, Low-, and Moderate-Income households generated by the new development is calculated and divided by the 100,000 square foot building size to arrive at coefficients of housing units per square foot of building area. The household income categories addressed in the analysis are the same as those in the Residential Nexus Analysis.
- The number of lower income households per square foot is multiplied by the affordability gap, or the cost of delivering housing units affordable to these income groups. This is the Maximum Supported Impact Fee for the non-residential land uses.

The Maximum Supported Impact Fees for the three building types are as follows:

Building Type	Maximum Supported Fee Per Square Foot
Office	\$140.10
Retail	\$260.70
Hotel	\$125.50

Note: Nexus findings are not recommended fee levels.
See Attachment B Non-Residential Nexus Analysis for detail.

The results of the analysis are heavily driven by the density of employees within buildings in combination with the occupational make-up of the workers in the buildings. Retail has both high employment density and a high proportion of low paying jobs.

These figures express the maximum supported impact fee per square foot for the three building types. They are not recommended levels for fees; they represent only the maximums established by this analysis, below which impact fees may be set.

Overlap Analysis

There is a potential for some degree of overlap between jobs counted in the Non-Residential Nexus Analysis and jobs counted in the Residential Nexus Analysis. The potential for overlap exists in jobs generated by the expenditures of City residents, such as expenditures for food, personal services, restaurant meals and entertainment. Retail is the building type that has the greatest potential for overlap to occur because it is often oriented to serving local residents. On the other hand, the potential for overlap is far less with office, industrial, warehouse and hotel buildings that often house businesses that serve a much broader, sometimes national or international, market and that are not focused on services to local residents. Appendix B to the Non-Residential Nexus Analysis provides additional discussion and an analysis demonstrating that, even in the improbable and theoretical case of complete overlap between jobs counted in the two nexus analyses, impact fees at the recommended levels would remain below the maximums supported by the nexus.

IV. CONTEXT MATERIALS

The purpose of this section is to provide information that may be useful to policy makers in considering potential amendments to the City's affordable housing requirements for residential development and potential adoption of a new affordable housing impact fee applicable to non-residential development. The following analyses and summary materials are included:

- **Multifamily Apartment Feasibility Analysis** – Section A. presents the analysis and findings regarding the financial feasibility of new multifamily market rate apartments;
- **Inclusionary Program Compliance Costs** – Section B. analyzes the cost to a market rate residential project of complying with the City's existing inclusionary requirements on-site;
- **Residential Affordable Housing Requirements in Other Jurisdictions** – Section C. provides a summary of inclusionary and impact fee requirements in other Santa Clara and Alameda county jurisdictions;
- **Non-Residential Development Cost Context** – Section D. evaluates total development costs associated with four prototypical building types to facilitate an evaluation of whether fee amounts are likely to affect development decisions; and
- **Jobs Housing Linkage Fee Programs in Other Jurisdictions** – Section E. provides information regarding adopted linkage fee programs in jurisdictions throughout the Bay Area and elsewhere in California.

A. Multifamily Apartment Financial Feasibility Analysis

In adopting or amending affordable housing requirements, cities typically consider a variety of public policy goals including seeking a balance between producing a meaningful amount of new affordable units and establishing requirements at a level that can be sustained by new market rate projects. This section addresses the potential impacts that new housing impact fees could have on the feasibility of new multi-family apartment projects. The analysis is specific to the West Valley cities of Campbell, Saratoga, and Los Altos.

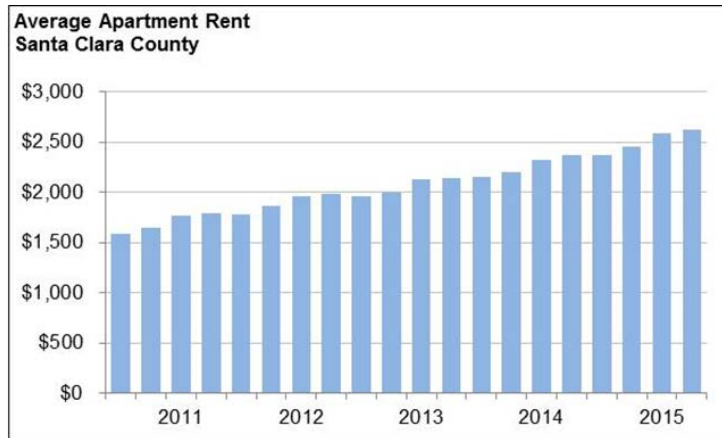
The financial feasibility analysis is focused on rental projects because the City's inclusionary housing requirements for rental projects have not been enforceable since the 2009 *Palmer* decision and adoption of a new rental impact fee would represent an additional cost that would need to be absorbed within the economics of rental projects. In contrast, feasibility of for-sale projects was not analyzed as the City's inclusionary housing policy is already reflected in development economics of new for-sale projects.

Before describing the feasibility analysis, it is useful to put the feasibility analysis into perspective by summarizing how it can be used and where limitations exist in its ability to inform a longer-term policy direction:

- **Prototypical Nature of Analysis** – This financial feasibility analysis, by its nature, can only provide a general assessment of development economics because it is based on prototypical projects rather than specific projects. Every project has unique characteristics that will dictate rents supported by the market as well as development costs and developer return requirements. This feasibility analysis is intended to reflect prototypical apartment projects in the cities of Campbell, Saratoga, and Los Altos but it is recognized that the economics of some projects will likely look better and some likely worse than those of the prototype analyzed.
- **Near Term Time Horizon** – This feasibility analysis is a snapshot of real estate market conditions as of early 2016. The analysis is most informative regarding near term implications a housing impact fee could have for projects that have already purchased sites and are currently in the pre-development stages. Real estate development economics are fluid and are impacted by constantly changing conditions regarding rent potential, construction costs, land costs, and costs of financing. A year or two from now, conditions will undoubtedly be different.
- **Adjustments to Land Costs over Time** – Developers purchase development sites at values that will allow for financially feasible projects. If a housing fee is put in place, developers will “price in” the requirement when evaluating a project’s economics and negotiating the purchase price for development sites. Given that the requirements will apply to all or most projects, it is possible that downward pressure on land costs could result as developers adjust what they can afford to pay for land. This downward pressure on land prices can, at least to some degree, bring costs back into better balance with the overall economics supported by projects.

Apartment Market Context

Like most parts of the Bay Area, Santa Clara County has experienced improving apartment market conditions (for new development) in recent years as exhibited by rising rents and occupancy rates. The improvement in market conditions is attributable to robust regional job growth and the overall strength of the regional economy.



Source: RealAnswers

Many parts of Santa Clara County have experienced significant new investment in market rate apartment development in recent years due to the rapid rise in job growth and apartment rental rates as well as the availability of low cost investment capital (debt and equity).

Financial Feasibility Analysis

The financial feasibility analysis estimates the costs to develop a new apartment project and the rental income that could be generated by the project upon completion. If the rental income is sufficient to support the development costs and generate a sufficient profit margin, the project is considered feasible. This approach to financial feasibility, known as a pro forma approach or income approach, is common practice in the real estate industry and is utilized in one form or another by all developers when analyzing new construction projects.

This analysis organizes the pro forma as a “land residual analysis”, meaning the pro forma solves for what the project can afford to pay for a development site based on the income projections and the non-land acquisition costs of the project. It then compares the residual land values with land costs in the current market in order to test whether developers can afford to buy land and develop projects. The following describes the assumptions utilized in the analysis and the conclusions drawn therefrom.

- The direct construction costs of development include all contractor labor and material costs to construct the project including general requirements, contractor fees, and contingencies. As shown in Table 1 below, the direct construction costs are estimated at \$253,000/unit. This estimate has been made based on third party construction data sources, such as RS Means, and by cost estimates for similar building types elsewhere in the market. Indirect costs of development include architecture and engineering (A&E) costs, municipal fees and permits costs, taxes, insurance, overhead, and debt financing costs. These costs have been estimated at \$103,000/unit.

- Rental income for the apartment prototype has been estimated based on apartment rent comps. Rents are estimated at \$3,900/month, or \$3.55/square foot/month. After a vacancy factor, operating expenses, and property taxes, the net operating income (NOI) is estimated at \$33,900/unit/year. Using this NOI and applying a 5.5% project return, the project value/supported investment is estimated at \$616,000/unit.
- The residual land value is derived by subtracting the development costs before land acquisition from the project value/supported investment. As shown in Table 1, the residual land value without a housing fee for the apartment prototype at 20 units per acre is approximately \$260,000/unit or \$119/square foot of land area.

Once the residual land values have been estimated, the values can be compared to prevailing land values in the market to determine whether the prototypes are financially feasible. In other words, if the residual land values are equal to or higher than market land values, then projects are generally feasible. Conversely, if the residual land values are less than market land values, some improvement in market conditions (lower development costs or higher housing values) will be needed for feasibility.

Land Value Supported

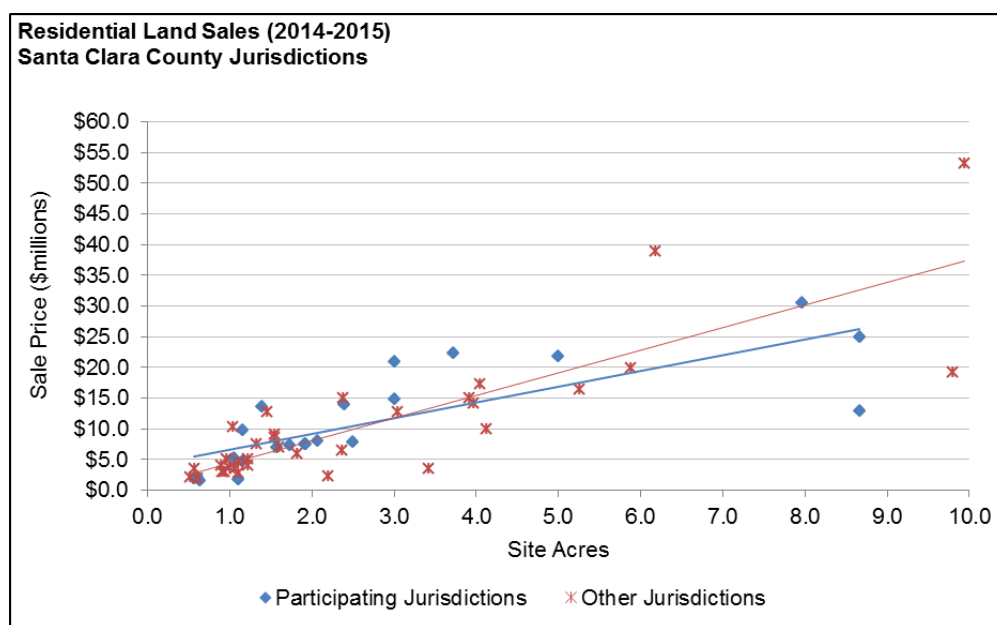
The feasibility analysis summarized in Table 1 on the next page indicates that apartment projects in the West Santa Clara County jurisdictions (cities of Campbell, Saratoga, and Los Altos), assumed at 20 units per acre on average, can afford to pay on average \$119/square foot for land with no affordable housing fee in place. The analysis also tested the land value supported with illustrative fee scenarios of \$10 to \$40 per net square foot. As shown, the supported land value decreases by approximately \$5 per square foot of land for each \$10 per square foot in fees added. The highest illustrative fee tested of \$40 per square foot, which is approaching the maximum supported by the nexus, is estimated to bring the residual land values to just under \$100 per square foot.

**Table 1. Summary of Apartment Feasibility Analysis
West Santa Clara County Jurisdictions**

Program		
Average Unit Size	1,100 sf (NSF)	
Average Bedrooms	2 bedrooms	
Density	20 du/acre	
Parking	Surface	
Development Costs	\$/NSF	\$/Unit
<u>Directs</u>	\$230	\$253,000
<u>Indirects</u>		
A&E	\$12	\$13,000
Fees & Permits (excl. Affordable)	\$36	\$40,000
Overhead & Administration	\$9	\$10,000
Other Indirects	\$21	\$23,000
Debt Financing Costs	\$15	\$17,000
Total Indirects	\$94	\$103,000
Total Costs before Land	\$324	\$356,000
Operating Income	\$/NSF	\$/Unit
Gross Income (\$3,900 rent + other income)	\$44	\$48,100
(Less) Vacancy (5%)	(\$2)	(\$2,400)
(Less) Operating Expenses & Taxes	(\$11)	(\$11,800)
Net Operating Income (NOI)	\$31	\$33,900
Threshold Return on Cost	5.50% ROC	
Total Supported Private Investment	\$560	\$616,000
Residual Land Value with Illustrative Fees	\$/Land SF	\$/Unit
Land Value: No Affordable Housing Fee	\$119	\$260,000
<u>Land Values With Illustrative Fee Scenarios</u>		
<i>Illustrative Fee at \$10/square foot</i>	\$114	\$249,000
<i>Illustrative Fee at \$20/square foot</i>	\$109	\$238,000
<i>Illustrative Fee at \$30/square foot</i>	\$104	\$227,000
<i>Illustrative Fee at \$40/square foot</i>	\$99	\$216,000

Prevailing Land Values

In order to assess prevailing land values for residential development in the Santa Clara County jurisdictions, KMA reviewed relevant land sale comparables (comps) in 2014 and 2015 as well as recent residential land appraisals. The median sale price of the land comps located within the participating Santa Clara County jurisdictions was \$92/square foot. In general, land values will be higher in superior locations such as those with convenient proximity to job centers, public transit, retail and commercial services, and freeway access, as well as for sites that are of ideal size and configuration and have appropriate entitlements for near-term residential development.



Land sales in participating jurisdictions include cities of Santa Clara, Milpitas, Campbell, and Saratoga. Median sale price in participating jurisdictions = \$92/square foot. Land sales in other jurisdictions include Mountain View, Sunnyvale, San Jose, and Cupertino.

Based on the fact that the land sales reviewed for this analysis occurred in 2014 and 2015, the values today would be higher after accounting for land value appreciation. In general, values for the West County jurisdictions of Campbell, Los Altos, and Saratoga will also likely be higher than in Santa Clara and Milpitas given the higher residential values in these cities; however, information is limited due to the very few recorded land transactions occurring in these cities. We estimate land values are in the \$100 to \$120 per square foot range, or within the same range as the \$119 per square foot land value supported by the economics of new multifamily apartment projects as estimated in Table 1. As noted in the beginning of this section, due to the prototype approach to this analysis, some apartment projects will probably support a somewhat higher land value and some projects will support a somewhat lower land value based on location, site, and other individual project considerations.

Feasibility Conclusion

The analysis indicates that the economics of multifamily rental projects are strong under current market conditions and that projects are generally feasible. This finding is consistent with recent development activity in Campbell and Los Altos which includes several recently completed and approved apartment projects.

Potential Market Adjustments to Absorb New Fees

In a strong market, developers are often faced with increasing competition for building sites. These conditions can drive up the cost of land and will have a tendency to absorb any “surplus” projects might have had in their economics. Construction costs can also rise when development activity is strong. As a result, even under the strongest of conditions, projects usually do not have a “surplus” in their pro formas available to absorb new fees. However, markets are able to adjust to new fees just as they adjust to other changing market conditions such as rents and construction costs. Just as strong feasibility conditions contribute to increasing land prices, a new fee can contribute to downward pressure on land prices as developers must build the new fee into the economics of their projects and may adjust what they are willing to pay for land as a result. This can help offset, at least to some degree, the increased cost of a new fee.

Since the feasibility analysis is a snapshot in time analysis based on current market conditions, it can be instructive to consider how relatively modest improvements in project economics (e.g. continued strong increases in rents paired with more moderated increases in construction costs) can help to absorb a new fee. By way of illustration, a \$20/square foot fee could be absorbed by any of the following market adjustments:

- An approximately 2% increase in rents
- An approximately 8.7% decrease in direct construction costs
- An approximately 8.5% decrease in land costs

Additional examples of potential market adjustments at illustrative fee levels of \$10, \$30 and \$40 per square foot are shown in the table below. These calculations can be made for any fee level that may be considered. Note that adjustments are not additive. Each would be independently sufficient to absorb the fee increase. Depending on the market cycle and other factors, a combination of the above market adjustment would be expected to contribute to absorbing the new fee.

Potential Market Adjustments to Absorb New Fees

Potential Market Adjustments to Absorb Illustrative Fee Levels					
	Each \$1 Fee	\$10 Fee	\$20 Fee	\$30 Fee	\$40 Fee
Increase in Rents/Income	0.11%	1.1%	2.2%	3.3%	4.5%
Decrease in Direct Costs	0.43%	4.3%	8.7%	13.0%	17.4%
Decrease in Land Values (based on \$119/sf)	0.42%	4.2%	8.5%	12.7%	16.9%

B. On-Site Compliance Cost Analysis

The inclusionary program in Los Altos requires developers of new for-sale projects to set aside 10% of units for Moderate and Low income households. KMA estimated the foregone revenue for the developer when units are sold at affordable prices; this is referred to as the 'onsite compliance costs.' KMA notes that the 'cost' is compared to the hypothetical condition of no requirement. As Los Altos has long had its inclusionary program in place, land values for residential development have adjusted to absorb this cost, as developers acquiring land know how the obligation will affect their project's economics. A primary purpose of the onsite compliance analysis is to enable an understanding of the cost associated with complying with the City's existing inclusionary requirements, which is often useful as context for consideration of potential fee obligations.

KMA notes that the City offers development incentives designed to reduce the onsite compliance costs; use of the State density bonus program would also reduce onsite compliance costs. This analysis does not take into account those factors. KMA also notes that the City's program exempts projects with densities less than four units to the acre or with fewer than five units total; as a result, it is likely that the single family detached prototypes would be exempt from the current program.

KMA modeled the two scenarios – 10% of units at Moderate and 10% of units at Low. The City's current program requires units up to Moderate with at least one unit at Low. Table 2 presents our estimates of onsite compliance costs for ownership units. With current market rate sales prices, the cost to a developer associated with designating 10% of units at Moderate ranges from \$72,000 to \$305,000 per market rate unit or \$55 to \$89 per square foot residential area, depending on the prototype. The cost to a developer associated with designating 10% of units at Low Income ranges from \$94,000 to \$327,000 per market rate unit or \$68 to \$99 per square foot, depending on the prototype.

Rental projects were not included in the analysis because inclusionary requirements for rentals have not been enforceable since the 2009 Palmer decision.

These figures should not be interpreted as recommended fee levels.

**TABLE 2
COST OF ONSITE COMPLIANCE AND EQUIVALENT IN-LIEU FEES
RESIDENTIAL NEXUS ANALYSIS
CITY OF LOS ALTOS, CA**

		Prototype 1 Single Family Detached		Prototype 2 Small Lot Single Family Detached		Prototype 3 Townhome		Prototype 4 Condominium	
Unit Size ¹		3,500 sq ft		2,000 sq ft		1,500 sq ft		1,300 sq ft	
Number of Bedrooms ¹		4		3		2.5		3	
Market Rate		Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit
Sales Prices ¹		\$1,000	\$3,500,000	\$1,100	\$2,200,000	\$800	\$1,200,000		\$1,100,000
Affordable Prices²			Per Unit		Per Unit		Per Unit		Per Unit
At Moderate Income (110%)			\$454,650		\$423,150		\$377,050		\$375,850
At Low Income (70%)			\$225,050		\$210,500		\$175,050		\$163,150
Affordability Gap³			Per Unit		Per Unit		Per Unit		Per Unit
Per Affordable Moderate Unit			\$3,045,350		\$1,776,850		\$822,950		\$724,150
Per Affordable Low Income			\$3,274,950		\$1,989,500		\$1,024,950		\$936,850
Cost of Onsite Compliance⁴		Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit
Inclusionary Percentage @	10.0% Mod	\$87	\$304,535	\$89	\$177,685	\$55	\$82,295	\$56	\$72,415
	10.0% Low	\$94	\$327,495	\$99	\$198,950	\$68	\$102,495	\$72	\$93,685

1. See Residential Nexus Analysis Table A-1.
2. Estimate calculated by KMA based on standard affordable pricing assumptions and may not reflect City's methodology.
3. The difference between the market rate sales prices and the restricted affordable price.
4. Equivalent cost per market rate unit or square foot.

TABLE 2A
ESTIMATED AFFORDABLE HOME PRICES - Moderate Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF LOS ALTOS, CA

Unit Size Household Size	Condo	Townhome	Townhome	SFD	SFD
	3-Bedroom Unit 4-person HH	2-Bedroom Unit 3-person HH	3-Bedroom Unit 4-person HH	3-Bedroom Unit 4-person HH	4-Bedroom Unit 5-person HH
100% AMI Santa Clara County 2016	\$107,100	\$96,400	\$107,100	\$107,100	\$115,650
Annual Income @ 110%	\$117,810	\$106,040	\$117,810	\$117,810	\$127,215
% for Housing Costs	35%	35%	35%	35%	35%
Available for Housing Costs	\$41,234	\$37,114	\$41,234	\$41,234	\$44,525
(Less) Property Taxes	(\$4,500)	(\$4,272)	(\$4,776)	(\$5,076)	(\$5,460)
(Less) HOA	(\$6,000)	(\$3,600)	(\$3,600)	\$0	\$0
(Less) Utilities	(\$1,416)	(\$1,416)	(\$1,776)	(\$3,144)	(\$3,552)
(Less) Insurance	(\$700)	(\$700)	(\$800)	(\$800)	(\$900)
(Less) Mortgage Insurance	(\$4,820)	(\$4,563)	(\$5,103)	(\$5,427)	(\$5,832)
Income Available for Mortgage	\$23,798	\$22,563	\$25,179	\$26,787	\$28,781
Mortgage Amount	\$357,100	\$338,600	\$377,800	\$402,000	\$431,900
Down Payment (homebuyer cash)	\$18,750	\$17,800	\$19,900	\$21,150	\$22,750
Supported Home Price	\$375,850	\$356,400	\$397,700	\$423,150	\$454,650
Key Assumptions					
- Mortgage Interest Rate ⁽¹⁾	5.30%	5.30%	5.30%	5.30%	5.30%
- Down Payment ⁽²⁾	5.00%	5.00%	5.00%	5.00%	5.00%
- Property Taxes (% of sales price) ⁽³⁾	1.20%	1.20%	1.20%	1.20%	1.20%
- HOA (per month) ⁽⁴⁾	\$500	\$300	\$300	\$0	\$0
- Utilities (per month) ⁽⁵⁾	\$118	\$118	\$148	\$262	\$296
- Mortgage Insurance (% of loan amount)	1.35%	1.35%	1.35%	1.35%	1.35%

(1) Mortgage interest rate based on 15-year Freddie Mac average; assumes 30-year fixed rate mortgage.

(2) Down payment amount is an estimate for Moderate Income homebuyers.

(3) Property tax rate is an estimated average for new projects.

(4) Homeowners Association (HOA) dues is an estimate for the average new project.

(5) Utility allowances from Santa Clara County Housing Authority (2016).

TABLE 2B
ESTIMATED AFFORDABLE HOME PRICES - Low Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF LOS ALTOS, CA

	Condo	Townhome	Townhome	SFD	SFD
Unit Size	3-Bedroom Unit	2-Bedroom Unit	3-Bedroom Unit	3-Bedroom Unit	4-Bedroom Unit
Household Size	4-person HH	3-person HH	4-person HH	4-person HH	5-person HH
100% AMI Santa Clara County 2016	\$107,100	\$96,400	\$107,100	\$107,100	\$115,650
Annual Income @ 70%	\$74,970	\$67,480	\$74,970	\$74,970	\$80,955
% for Housing Costs	30%	30%	30%	30%	30%
Available for Housing Costs	\$22,491	\$20,244	\$22,491	\$22,491	\$24,287
(Less) Property Taxes	(\$1,956)	(\$1,980)	(\$2,220)	(\$2,520)	(\$2,700)
(Less) HOA	(\$6,000)	(\$3,600)	(\$3,600)	\$0	\$0
(Less) Utilities	(\$1,416)	(\$1,416)	(\$1,776)	(\$3,144)	(\$3,552)
(Less) Insurance	(\$700)	(\$700)	(\$800)	(\$800)	(\$900)
(Less) Mortgage Insurance	(\$2,093)	(\$2,106)	(\$2,376)	(\$2,700)	(\$2,889)
Income Available for Mortgage	\$10,327	\$10,442	\$11,719	\$13,327	\$14,246
Mortgage Amount	\$155,000	\$156,700	\$175,900	\$200,000	\$213,800
Down Payment (homebuyer cash)	\$8,150	\$8,250	\$9,250	\$10,500	\$11,250
Supported Home Price	\$163,150	\$164,950	\$185,150	\$210,500	\$225,050
Key Assumptions					
- Mortgage Interest Rate ⁽¹⁾	5.30%	5.30%	5.30%	5.30%	5.30%
- Down Payment ⁽²⁾	5.00%	5.00%	5.00%	5.00%	5.00%
- Property Taxes (% of sales price) ⁽³⁾	1.20%	1.20%	1.20%	1.20%	1.20%
- HOA (per month) ⁽⁴⁾	\$500	\$300	\$300	\$0	\$0
- Utilities (per month) ⁽⁵⁾	\$118	\$118	\$148	\$262	\$296
- Mortgage Insurance (% of loan amount)	1.35%	1.35%	1.35%	1.35%	1.35%

⁽¹⁾ Mortgage interest rate based on 15-year Freddie Mac average; assumes 30-year fixed rate mortgage.

⁽²⁾ Down payment amount is an estimate for Low Income homebuyers.

⁽³⁾ Property tax rate is an estimated average for new projects.

⁽⁴⁾ Homeowners Association (HOA) dues is an estimate for the average new project.

⁽⁵⁾ Utility allowances from Santa Clara County Housing Authority (2016).

C. Residential Affordable Housing Requirements in Other Jurisdictions

The affordable housing requirements adopted by other jurisdictions are almost always of interest to decision making bodies. Cities inevitably want to know what their neighbors have in place for affordable housing requirements, and often want to examine other cities that are viewed as comparable on some level. The body of information on other programs not only presents what others are adopting, but also illustrates the broad range in program design and customized features available to meet local needs.

The work program design for Multi Jurisdiction Nexus Studies anticipated wide interest in the comparison jurisdictions to be covered. To keep the comparison task manageable, the participating cities and counties voted as to which cities were of greatest interest for inclusion in the comparison survey. For the most part, the participants selected their neighbors and the larger cities of the local region as being of most interest. It was a given that the existing requirements of all participant cities and counties would also be included. Ultimately, eight cities in Santa Clara County and ten cities in Alameda County were selected for inclusion in the comparison material.

A four-page chart summarizes the key features of the eighteen cities in the survey (Table 3). Neither of the two participating counties have yet adopted affordable housing requirements. The chart was designed to focus on the major components of each city's program that would be most relevant to decision making by the participating jurisdictions, primarily the thresholds, the fee levels and on-site affordable unit requirements.

1. Findings from the Survey

Thresholds for On-Site Affordable Requirement

- Whether or not for-sale development projects have the choice “as of right” between paying a fee or doing on-site units is a critical feature of any program. In the eight Santa Clara jurisdictions, six require on-site units and offer no fee “buy out” without a special City Council procedure. Only San Jose and Milpitas offer the fee choice at this time. In contrast, of the ten Alameda jurisdictions, most offer fee payment “as of right.”
- Most fee options are less costly to the developer than providing on-site units. High fees are necessary if the choice between building units or paying fees is to be at all competitive. The high fee cities, such as Fremont, aim to present a real choice and achieve some on-site compliance units as well as fee revenues.
- With the loss of redevelopment and tax increment resources dedicated to housing, many cities have revised their programs to generate more fee revenues. Programs can be

revised to so as to alter options or incentives for projects to provide on-site units versus pay a fee based on the City's preferences.

- The loss of redevelopment has also motivated some cities to lower minimum project sizes to collect fees on very small projects, even single units. Several Santa Clara cities in the chart have adjusted their thresholds down to three to five units for fee payment, and the recently updated Cupertino program goes down to single units. The nexus analysis fully demonstrates the impact generated by single units, and as a result, some cities view charging very small projects and single units a matter of fairness and equity in an “everybody contributes” approach to meeting affordable housing challenges.
- Following the *Palmer* decision, impact fees have been the only avenue for instituting affordable housing requirements on rentals. On-site affordable units are sometimes permitted or encouraged as an alternative to fee payment.

Fee Levels

- Impact fee levels for rentals in the cities of north and west Santa Clara County cluster in the \$15 to \$20 per square foot range for rentals, notably San Jose, Mountain View, Sunnyvale, and Cupertino. Most other cities have not yet adopted impact fees on rentals.
- Fees on for sale units, where permitted, in the Santa Clara cities reflect a range of approaches and levels. Several Silicon Valley cities charge fees as a percent of sales price, a practice not used much outside of Silicon Valley. The percent of sales prices reflects the higher impacts of higher priced units, borne out in the nexus analysis. The approach also scales fees in proportion to the revenue projects would forgo were a portion of units to be made affordable on-site.
- In the East Bay, Fremont is notable for its higher fees and obligation to provide both units and pay fees. Hayward has a lower fee structure. Oakland is a new adoption that will phase in fees up to \$23,000 per market rate unit, less than Berkeley but higher than neighbors to the south.
- East of the hills, some programs like Pleasanton, have been in place for decades but are more modest than most of the newer ones. Dublin is, in many ways, its own special case, with vigorous development activity and affordable unit requirements.

On-Site Requirements

- The Santa Clara cities (excluding Milpitas) have programs in the 10% to 20% range, with 15% most common.

- For the Santa Clara County programs, the affordability level applicable to for-sale projects is usually in the moderate income range, with pricing of on-site units ranging from 90% to 120% AMI, depending on the city. A few cities do seek some units down to Low Income.
- In Alameda cities, on-site requirements are most commonly at the 15% level. Berkeley has a 20% requirement, while Hayward and Oakland have lower requirements. The Fremont percentage is lower but a fee is owed in addition to on-site units.

2. Other General Comments

- Impact / in-lieu fees are presented at adopted levels. Where a multi-year phase-in has been adopted, such as the new Oakland program, the full phase in amount is shown with clarification in the bottom comment section of the chart. Fees on rentals are included only when they have been adopted as impact fees, following the *Palmer* California Supreme Court ruling which precludes on-site requirements and their in-lieu fee alternatives.
- Fees are expressed in different ways from one city to the next. Some fees are charged per square foot, some are a flat fee per market rate unit, and some are charged per affordable unit owed, which is almost always over \$100,000 in the Bay Area. To convert per unit owed to per market rate unit, one can multiply the per unit amount by the percentage requirement.
- On-Site Requirement/Option for Rentals. Many city codes continue to include on-site requirement language for rental projects because codes have not been updated since the *Palmer* ruling and requirements are not being applied (except through negotiation). These requirements are not included in the chart.
- The income levels of the affordable units that are required are summarized in terms of both “eligibility” or “qualifying” levels and the pricing level that is used to establish the purchase price or rent level of the unit. The pricing level is the critical one insofar as the developer’s obligation is concerned. The most typical choice for pricing level is to be consistent with the affordable housing cost definitions in the California Health & Safety Code 50052.5 and 50053.
- Virtually all cities that have on-site requirements for for-sale residential projects without the choice of fee payment, do allow fee payment with special City Council approval. Therefore, the chart notes this feature only by way of a footnote. The City’s practice in granting such approvals may be more consequential than what may be written.

For more complete information on the programs, please consult the website and code language of the individual cities.

**TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
PARTICIPATING JURISDICTIONS: SANTA CLARA COUNTY¹
AFFORDABLE HOUSING NEXUS ANALYSES**

	Campbell	Los Altos	Milpitas	Santa Clara City
Year Adopted / Updated	2006	Est. 1995, update 2009	2015	Est. 1991, update 2006
Minimum Project Size				
For In-lieu/Impact Fee	FS, <6du/Ac: 10 units FS, >6 du/Ac: n/a	n/a	FS/R: 5 units	n/a
For Build Requirement	FS, <6du/Ac: n/a FS, >6du/Ac: 10 units	FS: 5 units	no build req.	FS: 10 units
Impact / In-Lieu Fee	FS: \$34.50 /sf	none	FS/R: 5% building permit value	FS: Fractional units only (Market Value - Affordable Price) x fractional unit
Onsite Requirement/Option				
Percent of Total Units	FS: 15%	FS: 10%	FS/R: 5%	FS: 10%
Income Level for Qualification	FS: Moderate	FS: Moderate If <10 units, one unit at Low.	FS/R: Low and Very Low	FS: Moderate
Income Level for Pricing(% AMI)	FS: Moderate @ 110%	Not Specified.	Not specified.	Not specified.
Fractional Units	<0.5: round down, >0.5: round up	provide unit	not specified	pay fee or provide unit
Comments		<4 du/Ac: no requirement. Also, requirements may be waived by City Council for projects of 9 units or less.	In-lieu/impact fee introduced as temporary measure while City prepares formal nexus study. Fee has not yet been assessed.	

Abbreviations: R = Rental FS = For Sale /sf = per square foot MF = Multi-Family
du = Dwelling Unit Ac = Acre AMI =Area Median Income SF = Single Family

1. Santa Clara County and Saratoga do not currently have an inclusionary housing requirement.

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction. Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

**TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
NON-PARTICIPATING JURISDICTIONS: SANTA CLARA COUNTY
AFFORDABLE HOUSING NEXUS ANALYSES**

	Cupertino	Mountain View	San Jose	Sunnyvale
Year Adopted / Updated	Est. 1992, update 2015	Est. 1999, rental impact fee in 2012, update 2015	Est. 2010. Rental Fee 2014.	Update 2015
Minimum Project Size For In-lieu/Impact Fee	FS/R: 1 unit	FS: 3 units R: 5 units	FS: 20 units R: 3 units	FS: 8 units R: 4 units
For Build Requirement	FS: 7 units	Mixed FS/R: 6 units FS: 10 units	no build req.	FS: 20 units
Impact / In-Lieu Fee	FS: <i>Detached</i> \$15/sf, <i>Attached</i> \$16.50/sf, <i>MF</i> \$20/sf R: <35 du/Ac \$20/sf, >35 du/Ac \$25/sf	FS: 3% of sales price R: \$17/sf	FS: based on affordability gap R: \$17 /sf	FS: 7% of sales price R: \$8.50/sf (4-7 units), \$17/sf (8+ units)
Onsite Requirement/Option Percent of Total Units	FS/R: 15%	FS/R: 10%	FS: 15%	FS: 12.5% R: On-site credits (see below)
Income Level for Qualification	FS: 1/2 Median 1/2 Moderate R: 40% Low, 60% Very Low	FS: Median R: Low	FS: Moderate	FS: Moderate
Income Level for Pricing(% AMI)	FS: Moderate @ 110%, Median @ 90% R: Low @ 60%, Very Low @ 50% AMI	FS: One unit: 90% AMI Multiple units: 80 - 100% AMI R: Ranges btwn 50-80% AMI	Moderate @ 110% AMI	Moderate @ 100% AMI
Fractional Units	<.5 unit owed: pay fee .5+ unit owed: round up	pay fee or provide unit	R: pay fee FS: pay fee or provide unit	pay fee or provide unit
Comments			Inclusionary zoning to be reinstated 2016. Downtown highrises exempt from impact fee for five years.	On-site rental: developer credited \$300,000/du (Very Low), \$150,000/du (Low). Projects with fewer than 20 units are eligible to pay in-lieu fee.

Abbreviations:

R = Rental
du = Dwelling Unit

FS = For Sale
Ac = Acre

/sf = per square foot
AMI =Area Median Income

MF = Multi-Family
SF = Single Family

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.

Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

**TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
PARTICIPATING JURISDICTIONS: ALAMEDA COUNTY¹
AFFORDABLE HOUSING NEXUS ANALYSES**

	Albany	Fremont	Hayward	San Leandro	Union City
Year Adopted / Updated	2005	Est. 2002, update 2015, full phase-in 2017	Update 2015	2004	Est. 2001, update 2006
Minimum Project Size For In-lieu/Impact Fee For Build Requirement	FS: 5 units FS: 7 units	FS/R: 2 units no build req.	FS/R: 20 units no build req.	FS: 2 units FS: 7 units	n/a FS: 1 unit
Impact / In-Lieu Fee	FS: (Market Value - Affordable Price) x units owed	FS: Attached \$27.00 no units, \$18.50 w/ aff units Detached \$26.00 no units, \$17.50 w/ aff units, R: \$17.50 no map, \$27.00 w/ map	FS: Attached \$3.24/sf, Detached \$4/sf R: \$3.24/sf	FS: (Median Sale Price - Affordable Price) x units owed	FS: <7 units: \$160,000 /du owed, 7+ units: \$180 /sf owed
Onsite Requirement/Option Percent of Total Units	FS: 15%	FS: Attached 3.5% plus \$18.50/sf Detached 4.5% plus \$17.50/sf R: 12.9%	FS: Attached 7.5%, Detached 10% R: Attached 7.5%, Detached 10%	FS: 15%	FS: 15%
Income Level for Qualification	FS: <10 units: Low 10+ units: 50% Low, 50% Very Low	FS: Moderate Income R: 19% Extremely Low, 33% Very Low, 25% Low, 24% Moderate	FS: Moderate Income R: 50% Low, 50% Very Low	FS: 60% Moderate, 40% Low	FS: 60% Moderate, 30% Median, 10% Low.
Income Level for Pricing(% AMI)	Not specified.	FS: Moderate @ 110% AMI (120% w/approval) R: Low @ 60% AMI, Very Low @ 50% AMI, Extremely Low @ 30% AMI	FS: Moderate @ 110% AMI R: Low @ 60% AMI Very Low @ 50% AMI	FS: Moderate @ 110% AMI, Low @ 70% AMI	FS: Moderate @ 110% AMI, Median not specified (80-100%) Low @ 70% AMI
Fractional Units	<0.5: pay fee, >0.5: provide unit	pay fee or provide unit	pay fee or provide unit	<0.5: round down, >0.5: round up	pay fee or provide unit
Comments		Full phase-in levels shown. Rental projects with a subdivision map pay the higher fee. FS projects req. to provide onsite units and pay fee.		Fee calculated based on current median sales price. No fees owed since 2008.	Fee payment with City approval only. Single-unit, owner occupied projects exempt.

Abbreviations: R = Rental /sf = per square foot MF = Multi-Family
du = Dwelling Unit Ac = Acre AMI =Area Median Income SF = Single Family

1. Alameda County (not displayed) does not currently have an affordable housing requirement.

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.

Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

**TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
NON-PARTICIPATING JURISDICTIONS: ALAMEDA COUNTY
AFFORDABLE HOUSING NEXUS ANALYSES**

	Alameda (city)	Berkeley	Dublin	Oakland	Pleasanton
Year Adopted / Updated	2003	Est. 1986, rental fee 2011, update proposed 2016	Est. 1997, update 2005	2016	Est. 1978, update 2000.
Minimum Project Size For In-lieu/Impact Fee For Build Requirement	FS: 5 units FS: 10 units	FS/R: 5 units no build req.	FS/R: 20 units FS/R: 20 units (partial)	FS/R: 1 unit no build req.	FS/R: 15 units no build req.
Impact / In-Lieu Fee	FS: \$18,431/du	FS: 62.5% x (Sale Price - Affordable Price) x units owed R: Current \$28,000/du <i>Proposed</i> \$34,000/du	FS/R: \$127,061 per aff unit owed (in addition to on-site)	FS/R: MF \$12,000-\$22,000, SF Attached \$8,000-\$20,000, SF Detached \$8,000-\$23,000	FS/R: MF \$2,783/du, SF <1,500 sq ft: \$2,783/du, >1,500 sq ft: \$11,228/du
Onsite Requirement/Option Percent of Total Units	FS: 15%	FS: 20% R: Current 10%, <i>Proposed</i> 20% FS: Low	FS/R: 7.5%, plus fee (12.5% without fee)	FS/R: Option A 5% or Option B 10%	FS/R: MF 15% SF 20%
Income Level for Qualification	FS: 47% Moderate, 27% Low, 27% Very Low	R: Current Very Low <i>Proposed</i> 1/2 Very Low, 1/2 Low	FS: 60% Moderate, 40% Low R: 50% Moderate, 20% Low, 30% Very Low	FS/R: Option A Very Low Option B Low and Moderate	FS: MF Low SF Moderate
Income Level for Pricing(% AMI)	FS: Moderate @ 110%, Low @ 70%, Very Low @ 50%	FS: Low @ 80% R: Low at 81%, Very Low at 50%.	FS: Moderate @ 110%, Low @ 70% R: Moderate @ 110%, Low @ 80%, Very Low @ 50%	FS: Moderate @ 110%, Low @ 70%, Very Low @ 50% R: Moderate 110%, Low @ 60%, Very Low @ 50%	FS: MF 80% AMI SF 120% AMI
Fractional Units	<0.5: round down, >0.5: round up	pay fee	<0.5: round down, >0.5: round up	pay fee or provide unit	<0.5: round down, >0.5: round up
Comments		Council has directed City Manager to draft ordinance with proposed changes to rental program.		Fees vary by neighborhood. Fees phased in through 2020. Full fee levels shown. On-site: May choose Option A or B. Based on draft ordinance prepared for April 19, 2016 council meeting.	

Abbreviations: R = Rental /sf = per square foot MF = Multi-Family
du = Dwelling Unit Ac = Acre AMI =Area Median Income SF = Single Family

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction. Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

D. Non-Residential Development Cost Context

The non-residential development cost context analysis considers the impacts a new affordable housing fee could have on the cost of development for new office, retail, hotel, and light industrial projects in Santa Clara County. The analysis enables an understanding of the relative cost burdens new fees have on various types of commercial and industrial development projects and can be useful in scaling fees by type of project.

For commercial and industrial development, the analysis considers the potential fee as a percentage of total development costs rather than the full feasibility analysis included for the multi-family apartments. One of the primary reasons a full feasibility analysis is not performed for the commercial land uses is because there is typically greater variation in the cost and rent structures for commercial projects than for housing projects. Development costs and rents can vary widely for office and retail projects due to the specialized nature of tenant improvements and lease terms from one tenant to another. Costs and revenues also vary widely for hotel projects due to the fact that hotel products range from lower cost limited service and budget hotels to highly amenitized full service and boutique hotels. Finally, affordable housing requirements applicable to non-residential development typically represents a smaller percentage of overall project cost compared to residential requirements. For these reasons, the utility of a full feasibility analysis for commercial projects is generally more limited than for housing projects. Instead an understanding of the total development cost context has generally proved sufficient to guide the selection of fee levels on non-residential projects.

1. Commercial Market Context

Like the residential market, commercial projects in Santa Clara County have experienced strengthening conditions in recent years due to robust job growth and the strength of the overall regional economy. According to a recent market report from Newmark Cornish & Carey, as of Q1 2016 there was about 9.5 million square feet of office development in construction in Silicon Valley out of a total office inventory of 75 million square feet. New retail, hotel and industrial projects are also being built or are in the planning stages in various parts of the county.

2. Development Cost Analysis

For the development cost analysis, KMA utilized the following four commercial prototypes.

- Office development with structured parking at 1.00 floor area ratio (FAR)
- Hotel development with surface and structured parking at 1.00 FAR
- Retail development with surface parking at 0.30 FAR
- Light industrial development with surface parking at 0.40 FAR

In preparing these prototypes it is acknowledged that there could be some differences in overall density from one jurisdiction to another as these prototypes are intended to reflect averages for

the participating jurisdictions in Santa Clara County. However, for purposes of the development cost assessment it is not necessary to analyze every variation of project density or building prototype being built or proposed to be built. The utility of the analysis lies with an understanding of the general range of development costs for new commercial projects and the impact that a new fee can have relative to those costs.

The estimates of total development costs for the commercial prototypes are shown in the following table. The costs include estimates for land acquisition, direct construction costs, and indirect and financing costs of development. In assembling the development cost estimates, KMA utilized a variety of data sources, including the following:

- Land appraisals, CoStar land comps;
- Third party construction cost data sources such as RS Means and Engineering News Record (ENR);
- Pro forma data for current non-residential projects in the Bay Area.

**Non-Residential Development Costs
Santa Clara County Participating Jurisdictions**

	Office		Hotel		Retail		Light Industrial	
Building Square Feet	100,000		75,000		75,000		100,000	
Hotel Rooms			125 rooms					
Parking	Structure		Surface & Structure		Surface		Surface	
FAR	1.00 FAR		1.00 FAR		0.30 FAR		0.40 FAR	
Land Area	2.30 acres		1.72 acres		5.74 acres		5.74 acres	
	<u>\$/SF</u>	<u>Total</u>	<u>\$/SF</u>	<u>Total</u>	<u>\$/SF</u>	<u>Total</u>	<u>\$/SF</u>	<u>Total</u>
<u>Land Acquisition</u>	\$115	\$11,500,000	\$45	\$3,380,000	\$200	\$15,000,000	\$88	\$8,750,000
	\$115 /land sf		\$45 /land sf		\$60 /land sf		\$35 /land sf	
<u>Directs</u>	\$348	\$34,750,000	\$227	\$17,000,000	\$175	\$13,130,000	\$143	\$14,250,000
<u>Indirects</u>								
A&E	\$21	\$2,090,000	\$14	\$1,020,000	\$11	\$790,000	\$9	\$860,000
FF&E/Tenant Improvements	\$59	\$5,850,000	\$58	\$4,380,000	\$36	\$2,700,000	\$19	\$1,900,000
Fees & Permits (excl. Afford)	\$5	\$540,000	\$8	\$590,000	\$7	\$520,000	\$5	\$480,000
Other Indirects & Financing	\$33	\$3,280,000	\$21	\$1,580,000	\$26	\$1,930,000	\$16	\$1,570,000
Total Indirects & Financing	\$118	\$11,760,000	\$101	\$7,570,000	\$79	\$5,940,000	\$48	\$4,810,000
Total Costs	\$580	\$58,010,000	\$373	\$27,950,000	\$454	\$34,070,000	\$278	\$27,810,000
Total Cost Range	\$525 - \$625/sf		\$325 - \$425/sf		\$400 - \$500/sf		\$250 - \$300/sf	

As shown, total development costs for the non-residential prototypes range from a low of approximately \$250-\$300/square foot for the light industrial prototype to a high of approximately \$525-\$625 for the office prototype.

3. Affordable Housing Fees Supported

In general, affordable housing fees on non-residential projects fall within a range of 1% to 5% of total development costs, with the upper portion of the range generally reserved for cities that have very strong market conditions driving non-residential development projects. As noted in Section E., current affordable housing fees on non-residential projects are as high as \$20-\$25/square foot (for office projects) in Santa Clara County jurisdictions that have such fees. Current fees for other non-residential projects, such as retail and hotel, tend to be more in the \$5-\$10 / square foot range.

The table below summarizes the range of potential fees on non-residential projects expressed as a percentage of total development cost. As an example, at 3% of total development cost, a new housing fee would range from approximately \$8 / square foot for light industrial uses to \$17/square foot for office uses. As is common in jobs housing linkage fee programs, light industrial projects tend to have lower fees than higher intensity/higher value projects such as office projects because it is generally more difficult for lower cost projects to absorb new fees. Exceptions include some Silicon Valley cities where distinctions between office and industrial have become blurred and both are charged at the same rate.

Relative Fee Burdens*

	Office	Hotel	Retail	Light Industrial
Total Cost Range	\$525 - \$625/sf	\$325 - \$425/sf	\$400 - \$500/sf	\$250 - \$300/sf
Fee at 1% of Total Cost	\$5.75	\$3.75	\$4.50	\$2.75
Fee at 2% of Total Cost	\$11.50	\$7.50	\$9.00	\$5.50
Fee at 3% of Total Cost	\$17.25	\$11.25	\$13.50	\$8.25
Fee at 4% of Total Cost	\$23.00	\$15.00	\$18.00	\$11.00
Fee at 5% of Total Cost	\$28.75	\$18.75	\$22.50	\$13.75

*Fees calculated at 1-5% of mid-point of cost range.

As was done in the apartment feasibility section of this report, the following table summarizes how newly adopted fees can be absorbed by relatively minor improvements in development economics over time. For example, a newly added fee of \$20/square foot for the office prototype could be absorbed by a roughly 3% increase in rental income (\$20/square foot x 0.15%), a roughly 6% decrease in direct construction costs (\$20/square foot x 0.29%), or a roughly 17% decrease in land values (\$20/square foot x 0.87%). It is noted however that construction costs and rents tend to move in the same direction. Therefore, increases in rents would need to exceed increases in costs in order to produce a net gain in a project's economics.

Potential Market Adjustments to Absorb Every \$1/SF Fee

	Office	Hotel	Retail	Light Industrial
Increase in Rents/Income	0.15%	0.23%	0.19%	0.31%
Decrease in Direct Costs	0.29%	0.44%	0.57%	0.70%
Decrease in Land Values	0.87%	2.22%	0.50%	1.14%

Adjustments are not additive. Each would independently be sufficient to absorb new fees. Depending on the market cycle and other factors, a combination of the above market adjustments would be expected to contribute in absorbing a new fee.

E. Jobs Housing Linkage Fees in Other Jurisdictions

Information on other jobs housing linkage fee programs in nearby or comparable cities is often helpful context in considering new or updated fees. The following section provides information assembled regarding other programs in the Bay Area and elsewhere in California including information on customized features such as size thresholds, exemptions, and build options.

More than 30 cities and counties in California have commercial linkage fees, with the majority of these programs within the Bay Area and greater Sacramento. In Southern California, a few cities have linkage fee programs, of which San Diego is the largest example. Several communities in Massachusetts have linkage fees, including Boston and Cambridge. Seattle recently expanded its linkage fee program city-wide. Boulder, Colorado adopted a new city-wide program last year. Portland and Denver are each in the process of exploring new linkage fee adoptions.

Silicon Valley and the Peninsula, which has some of the strongest real estate market conditions in the Bay Area, is where many of the jurisdictions with the highest fee levels are found. For office, fee levels range from \$15 (Sunnyvale) to \$25 per square foot (Mountain View). Several cities have recently updated fee levels (Cupertino, Mountain View, Sunnyvale), or newly adopted fees (Redwood City). For retail and hotel, fee ranges are much broader as some jurisdictions have adopted similar fee levels across all building types while others have lower fee levels for retail and hotel.

Within the East Bay, fees have been adopted at a more moderate range. For office, fee levels for communities in the inner East Bay (west of the hills) range from \$3.59 (Newark) to \$5.24 (Oakland). Retail fees range from \$2.30 (Alameda) to \$4.50 (Berkeley). Oakland’s program covers only office and warehouse and exempts other uses such as retail.

The table on the following page provides an overview of fee levels for selected examples in Santa Clara County, the Peninsula, and the East Bay. A more complete overview of these programs, and many others, is presented on Table 4 at the end of this section.

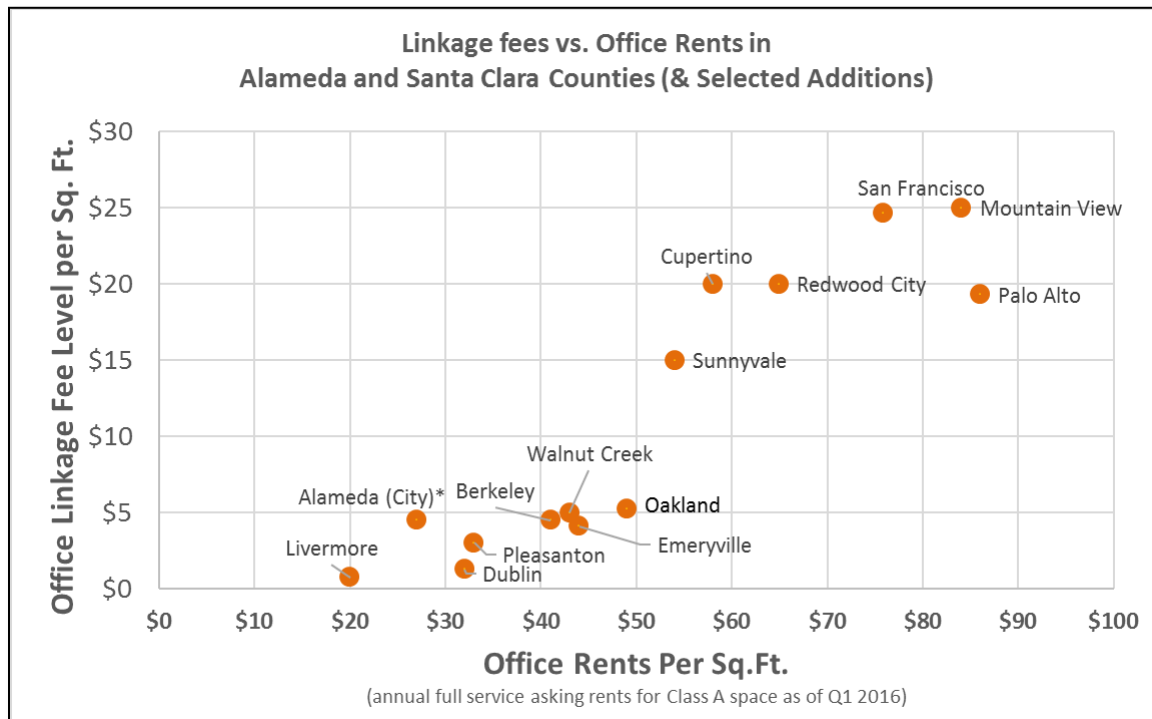
Affordable Housing Fee Levels in Selected Communities

Non-Residential Linkage Fees	Office \$/SF	Retail \$/SF	Hotel \$/SF	Industrial \$/SF
<u>Santa Clara Co. & Peninsula</u>				
Mountain View	\$25.00	\$2.68	\$2.68	\$25.00
Cupertino	\$20.00	\$10.00	\$10.00	\$20.00
Palo Alto	\$19.85	\$19.85	\$19.85	\$19.85
Sunnyvale	\$15.00	\$7.50	\$7.50	\$15.00
San Francisco	\$24.61	\$22.96	\$18.42	\$19.34
Redwood City	\$20.00	\$5.00	\$5.00	N/A
<u>East Bay: West of Hills</u>				
Oakland	\$5.24	N/A	N/A	N/A
Berkeley	\$4.50	\$4.50	\$4.50	\$2.25
Alameda (City)	\$4.52	\$2.30	\$1.85	\$0.78
Emeryville	\$4.10	\$4.10	\$4.10	\$4.10
Newark	\$3.59	\$3.59	\$3.59	\$0.69
<u>East Bay: East of Hills</u>				
Walnut Creek	\$5.00	\$5.00	\$5.00	N/A
Pleasanton	\$3.04	\$3.04	\$3.04	\$3.04
Dublin	\$1.27	\$1.02	\$0.43	\$0.49
Livermore	\$0.76	\$1.19	\$1.00	\$0.24

N/A = No fee or no applicable category

As a way to provide context in terms of the market conditions in each of the communities, the chart on the following page shows office linkage fees (the building type that usually has the highest fees) in relation to office rents by city. Office rents are an indicator of market strength and major driver of real estate values.

Office Linkage Fees vs. Average Office Rents in Selected Communities



*Rents for City of Alameda apply to Class B/C space (Class A rents not available)
Sources: Office rents from market research reports prepared by Colliers International.

By way of comparison, asking rents for available Class A office space in Los Altos as of Q1 2016 averaged just under \$80 per square foot.

Ordinance or Program Features

Linkage fee programs often includes features to address a jurisdiction's policy objectives or specific concerns. The most common are:

- Minimum Threshold Size** – A minimum threshold sets a building size over which fees are in effect. Programs with low fees often have no thresholds and all construction is subject to the fee. Thresholds, which reduce fees for smaller projects, are more common for programs with more significant fees. Some jurisdictions establish a building size over which the fee applies. Sometimes the fee applies to the whole building and sometimes the fee applies only to the square foot area over the threshold. Thresholds are often employed to minimize costs for small infill projects in older commercial areas, when such infill is a policy objective. There is also some savings in administrative costs. The disadvantage is lost revenue. Oakland and Berkeley are examples of communities employing thresholds while Alameda, Newark, and others do not. Mountain View has a reduced charge for the first 10,000 square feet of office space and the first 25,000 square feet of retail or hotel development.

- *Geographic Area Variations and Exemptions* – Some cities with linkage fee programs exclude specific areas such as redevelopment areas or have fees that vary based on geography. A geographic area variation can also be used to adjust the fee in jurisdictions where there is a broad difference in economic health from one subarea to the next. This is generally more common among large cities with a diverse range of conditions.
- *Specific Use Exemptions* – Some cities charge all building types while others choose to exempt specific uses. A common exemption is for buildings owned by non-profits which typically encompasses religious, educational/institutional, and hospital building types. Some programs identify specific uses as exempt such as schools and child care centers.

A more complete listing of the programs surveyed along with information about ordinance features such as exemptions and thresholds is contained in Table 3 at the end of this section.

TABLE 4
SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA

Jurisdiction	Yr. Adopted/ Updated	Fee Level (per Sq.Ft. unless otherwise noted)	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
SAN FRANCISCO, PENINSULA, SANTA CLARA COUNTY						
San Francisco Population: 829,000	1981 Updated 2002, 2007	Retail / Entertainment \$22.96 Hotel \$18.42 Production Dist. Repair \$19.34 Office \$24.61 Research and Development \$16.39 Small Enterprise Workspace \$19.34	25,000 gsf threshold Exempt: freestanding pharmacy < 50,000 SF; grocery < 75,000	Yes, may contribute land for housing.	Very Substantial	Fee is adjusted annually based on the construction cost increases.
City of Palo Alto Population: 66,000	1984 Updated 2002	Nonresidential Dvlpmt \$19.85	Churches; universities; recreation; hospitals, private educational facilities, day care and nursery school, public facilities are exempt	Yes	Very Substantial	Fee is adjusted annually based on CPI.
City of Menlo Park Population: 33,000	1998	Office & R&D \$15.57 Other com./industrial \$8.45	10,000 gross SF threshold Churches, private clubs, lodges, fraternal orgs, public facilities and projects with few or no employees are exempt.	Yes, preferred. May provide housing on- or off-site.	Very Substantial	Fee is adjusted annually based on CPI.
City of Sunnyvale Population: 146,000	1984 Updated 2003 and 2015.	Industrial, Office, R&D: \$15.00 Retail, Hotel \$7.50	Office fee is 50% on the first 25,000 SF of building area. Exemptions for Child care, education, hospital, non-profits, public uses.	N/A	Very Substantial	Fee is adjusted annually based on CPI.
Redwood City Population: 80,000	2015	Office \$20.00 Hotel \$5.00 Retail & Restaurant \$5.00	5,000 SF threshold 25% fee reduction for projections paying prevailing wage. Schools, child care centers, public uses exempt.	Yes. Program specifies number of units per 100,000 SF.	Very Substantial	Fee is adjusted annually based on ENR.
City of Mountain View Population: 77,000	Updated 2002 / 2012 /2014	Office/High Tech/Indust. \$25.00 Hotel/Retail/Entertainment. \$2.68	Fee is 50% on building area under thresholds: Office <10,000 SF Hotel <25,000 SF Retail <25,000 SF	Yes	Very Substantial	Fee is adjusted annually based on CPI.
City of Cupertino Population: 60,000	1993, 2015	Office/Industrial/R&D \$20.00 Hotel/Commercial/Retail \$10.00	No minimum threshold.	N/A	Very Substantial	Fee is adjusted annually based on CPI.
Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.						

**TABLE 4
SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA**

Jurisdiction	Yr. Adopted/ Updated	Fee Level (per Sq.Ft. unless otherwise noted)	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
EAST BAY						
City of Walnut Creek Population: 66,000	2005	Office, retail, hotel and medical \$5.00	First 1,000 SF no fee applied.	Yes	Very Substantial	Reviewed every five years.
City of Oakland Population: 402,000	2002	Office/ Warehouse \$5.24	25,000 SF exemption	Yes - Can build units equal to total eligible SF times .00004	Substantial	Fee due in 3 installments. Fee adjusted with an annual escalator tied to residential construction cost increases.
City of Berkeley Population: 116,000	1993 2014	Office \$4.50 Retail/Restaurant \$4.50 Industrial/Manufacturing \$2.25 Hotel/Lodging \$4.50 Warehouse/Storage \$2.25 Self-Storage \$4.37 R&D \$4.50	7,500 SF threshold.	Yes	Substantial	Annual CPI increase. May negotiate fee downward based on hardship or reduced impact.
City of Emeryville	2014	All Commercial \$4.10	Schools, daycare centers.	Yes	Substantial	Fee adjusted annually.
City of Alameda Population: 76,000	1989	Retail \$2.30 Office \$4.52 Warehouse \$0.78 Manufacturing \$0.78 Hotel/Motel \$1,108	No minimum threshold	Yes. Program specifies # of units per 100,000 SF	Moderate	Fee may be adjusted by CPI.
City of Pleasanton Population: 73,000	1990	Commercial, Office & Industrial \$3.04	No minimum threshold	Yes	Moderate	Fee adjusted annually.
City of Dublin Population: 50,000	2005	Industrial \$0.49 Office \$1.27 R&D \$0.83 Retail \$1.02 Services & Accommodation \$0.43	20,000 SF threshold	N/A	Moderate	
City of Newark Population: 44,000		Commercial \$3.59 Industrial \$0.69	No min threshold Schools, recreational facilities, religious institutions exempt.	Yes	Moderate	Revised annually
City of Livermore Population: 84,000	1999	Retail \$1.19 Service Retail \$0.90 Office \$0.76 Hotel \$583/ rm Manufacturing \$0.37 Warehouse \$0.11 Business Park \$0.76 Heavy Industrial \$0.38 Light Industrial \$0.24	No minimum threshold Church, private or public schools exempt.	Yes; negotiated on a case-by-case basis.	Moderate	
Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.						

**TABLE 4
SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA**

Jurisdiction	Yr. Adopted/ Updated	Fee Level (per Sq.Ft. unless otherwise noted)	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
MARIN, NAPA, SONOMA, SANTA CRUZ						
County of Santa Cruz Population: 267,000	2015	All Non-Residential \$2.00	No minimum threshold	N/A	Substantial	
County of Marin Population: 257,000	2003	Office/R&D \$7.19 Retail/Rest. \$5.40 Warehouse \$1.94 Hotel/Motel \$1,745/rm Manufacturing \$3.74	No minimum threshold	Yes, preferred.	Substantial	
San Rafael Population: 59,000	2005	Office/R&D \$7.64 Retail/Rest./Pers. Services \$5.73 Manufacturing/LI \$4.14 Warehouse \$2.23 Hotel/Motel \$1.91	5,000 SF threshold. Mixed use projects that provide affordable housing are exempt.	Yes. Program specifies number of units per 1,000 SF.	Substantial	
Town of Corte Madera Population: 9,000	2001	Office \$4.79 R&D lab \$3.20 Light Industrial \$2.79 Warehouse \$0.40 Retail \$8.38 Com Services \$1.20 Restaurant \$4.39 Hotel \$1.20 Health Club/Rec \$2.00 Training facility/School \$2.39	No minimum threshold	N/A	Substantial	
City of St. Helena Population: 6,000	2004	Office \$4.11 Comm./Retail \$5.21 Hotel \$3.80 Winery/Industrial \$1.26	Small childcare facilities, churches, non-profits, vineyards, and public facilities are exempt.	Yes, subject to City Council approval.	Substantial	
City of Petaluma Population: 59,000	2003	Commercial \$2.19 Industrial \$2.26 Retail \$3.78	N/A	Yes, subject to City Council approval.	Moderate/ Substantial	Fee adjusted annually by ENR construction cost index.
County of Sonoma Population: 492,000	2005	Office \$2.64 Hotel \$2.64 Retail \$4.56 Industrial \$2.72 R&D Ag Processing \$2.72	First 2,000 SF exempt Non-profits, redevelopment areas exempt	Yes. Program specifies number of units per 1,000 SF.	Moderate	Fee adjusted annually by ENR construction cost index.
City of Cotati Population: 7,000	2006	Commercial \$2.08 Industrial \$2.15 Retail \$3.59	First 2,000 SF exempt Non-profits exempt.	Yes. Program specifies units per 1,000 SF	Moderate	Fee adjusted annually by ENR construction cost index.
County of Napa Population: 139,000	Updated 2014	Office \$5.25 Hotel \$9.00 Retail \$7.50 Industrial \$4.50 Warehouse \$3.60	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis.	Moderate / Substantial	
City of Napa Population: 79,000	1999	Office \$1.00 Hotel \$1.40 Retail \$0.80 Industrial, Wine Pdn \$0.50 Warehouse (30-100K) \$0.30 Warehouse (100K+) \$0.20	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis.	Moderate/ Substantial	Fee has not changed since 1999. Increases under consideration.

Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.

TABLE 4
SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA

Jurisdiction	Yr. Adopted/ Updated	Fee Level (per Sq.Ft. unless otherwise noted)	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
SACRAMENTO AREA						
City of Sacramento Population: 476,000	1989 Most recent update, 2005	Office \$2.25 Hotel \$2.14 R&D \$1.91 Commercial \$1.80 Manufacturing \$1.41 Warehouse/Office \$0.82	No minimum threshold Mortuary, parking lots, garages, RC storage, Christmas tree lots, B&Bs, mini-storage, alcoholic beverage sales, reverse vending machines, mobile recycling, and small recyclable collection facilities	Pay 20% fee plus build at reduced nexus (not meaningful given amount of fee)	Moderate	North Natomas area has separate fee structure
City of Folsom Population: 73,000	2002	Office, Retail, Lt Industrial, and Manufacturing \$1.54 Up to 200,000 SF, 100% of fee; 200,000-250,000 SF, 75% of fee; 250,000-300,000 SF, 50% of fee; 300,000 and up, 25% of fee.	No minimum threshold Select nonprofits, small child care centers, churches, mini storage, parking garages, private garages, private schools exempt.	Yes Provide new or rehab housing affordable to very low income households. Also, land dedication.	Moderate/ Substantial	Fee is adjusted annually based on construction cost index
County of Sacramento Population: 1,450,000	1989	Office \$0.97 Hotel \$0.92 R&D \$0.82 Commercial \$0.77 Manufacturing \$0.61 Indoor Recreational Centers \$0.50 Warehouse \$0.26	No minimum threshold Service uses operated by non-profits are exempt	N/A	Moderate	
City of Elk Grove Population: 158,000	1989 (inherited from County when incorporated)	Office none Hotel \$1.87 Commercial \$0.64 Manufacturing \$0.72 Warehouse \$0.77	No minimum threshold Membership organizations (churches, non- profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	Office fee currently waived due to market conditions.
Citrus Heights Population: 85,000	1989 (inherited from County when incorporated)	Office \$0.97 Hotel \$0.92 R&D \$0.82 Commercial \$0.77 Manufacturing \$0.61 Indoor Recreational Centers \$0.50 Warehouse \$0.26	No minimum threshold Membership organizations (churches, non- profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	
Rancho Cordova Population: 67,000	1989 (inherited from County when incorporated)	Office \$0.97 Hotel \$0.92 R&D \$0.82 Commercial \$0.77 Manufacturing \$0.61 Indoor Recreational Centers \$0.50 Warehouse \$0.26	No minimum threshold Membership organizations (churches, non- profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	

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SOUTHERN CALIFORNIA							
City of Santa Monica Population: 92,000	1984 Updated 2002, 2015	Retail	\$9.75	1,000 SF threshold Private schools, city projects, places of worship, commercial components of affordable housing developments exempt.	N/A	Very Substantial	Fees adjusted annually based on construction cost index.
		Office	\$11.21				
		Hotel/Lodging	\$3.07				
		Hospital	\$6.15				
		Industrial	\$7.53				
		Institutional	\$10.23				
		Creative Office	\$9.59				
Medical Office	\$6.89						
City of West Hollywood Population: 35,000	1986	Non-Residential (per staff increase from \$4 to \$8 anticipated for FY16-17)	\$8.00	N/A	N/A	Substantial	Fees adjusted by CPI annually
City of San Diego Population: 1,342,000	1990 Updated 2014	Office	\$1.76	No minimum threshold Industrial/ warehouse, non-profit hospitals exempt.	Can dedicate land or air rights in lieu of fee	Substantial	
		Hotel	\$1.06				
		R&D	\$0.80				
		Retail	\$1.06				
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**MINUTES OF THE REGULAR MEETING OF THE CITY COUNCIL OF
THE CITY OF LOS ALTOS, HELD ON TUESDAY, MAY 9, 2017,
BEGINNING AT 7:00 P.M. AT LOS ALTOS CITY HALL, 1 NORTH SAN
ANTONIO ROAD, LOS ALTOS, CALIFORNIA**

ESTABLISH QUORUM

PRESENT: Mayor Prochnow, Vice Mayor Mordo, Councilmembers Bruins, Lee Eng and Pepper

ABSENT: None

PLEDGE OF ALLEGIANCE

Mayor Prochnow led the Pledge of Allegiance to the flag.

CLOSED SESSION ANNOUNCEMENT

1. Conference with Legal Counsel – Anticipated Litigation
Pursuant to Government Code Section 54956.9(d)(2)

Mayor Prochnow reported that no action was taken during the Closed Session meeting.

CHANGES TO THE ORDER OF THE AGENDA

Action: Upon a motion by Mayor Prochnow, seconded by Councilmember Lee Eng, the Council unanimously moved item number 6 to immediately before item number 4.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Lee Eng, the Council unanimously continued item number 5 to the May 23, 2017 meeting at the request of the applicant.

SPECIAL PRESENTATION

Mayor Prochnow recognized the Margaret Thompson Historical Essay Contest winners.

Mayor Prochnow presented a proclamation recognizing Pinky Whelan as the 2017 Historic Preservation Award winner.

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA

Los Altos resident Wallace Palmer encouraged the Council to conduct more quantitative research to reflect the population of Los Altos.

CONSENT CALENDAR

Direction: At the request of Councilmember Lee Eng, the Council directed staff to review the April 20, 2017 joint study session with the Planning and Transportation Commission and continued the minutes from that meeting to a future meeting.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Lee Eng, the Council unanimously approved the Consent Calendar, as follows:

1. Council Minutes: Approved the minutes of the April 25, 2017 regular meeting.
2. Professional Services Agreement Amendment: IT Consulting Services: Authorized the City Manager to execute Amendment No. 1 to the agreement between the City of Los Altos and CleanSlate Technology Group for IT Consulting Services.
3. Community Development Block Grant Funding: University Avenue Crosswalk Improvements, Project TS-01035: Approved the revised University Avenue Crosswalk Improvements, Project TS-01035 project description and budget to utilize \$170,050 Community Development Block Grant Capital Improvement Program (CIP) funds and \$40,000 City CIP funds; authorized the City Manager to execute the Community Development Block Grant contract for FY 2017/18; and appropriated up to \$170,050 of eligible Community Development Block Grant funds to the University Avenue Crosswalk Improvements, Project TS-01035.

DISCUSSION ITEMS

6. Identification of Affordable Housing Opportunities: Review and concur with staff that the starting point for identifying affordable housing opportunities should be the goals, policies and programs of the Housing Element of the City's General Plan (taken out of order)

Community Development Director Biggs presented the report.

Public Comments

Mircea (no last name given) encouraged the Council to consider allowing microunits and to increase density in some areas of the City.

Los Altos resident Roberta Phillips stated that the goal is not to create more density, it's to create more affordable housing and to be fair to residents.

Los Altos resident Sue Russell, representing the League of Women Voters, supported measures to increase affordable housing and suggested considering the use of City-owned land for affordable housing.

Direction: Councilmembers generally concurred that the starting point for identifying affordable housing opportunities should be the goals, policies and programs of the Housing Element, specifically looking at opportunity sites for housing, increasing the diversity of unit sizes, setting below market rate units to last in perpetuity and ensuring that the City is properly enforcing the affordable units within the City.

PUBLIC HEARING

4. Ordinance No. 2017-432: Accessory Dwelling Units: Introduce and waive further reading of Ordinance No. 2017-432 amending the accessory dwelling unit regulations

Planning Services Manager Kornfield presented the report.

Mayor Prochnow recessed the meeting at 9:12 p.m. The meeting resumed at 9:22 p.m.

Mayor Prochnow opened the public hearing.

Public Comments

Los Altos resident Anita Enander encouraged the Council to take a minimal approach to allowing accessory dwelling units.

Los Altos resident Diana Aston supported the ordinance.

Los Altos resident Les Poltrack encouraged the Council to remove the requirement that the property owner live on the property in order to rent the accessory dwelling unit.

Los Altos resident Roberta Phillips commented that the ordinance does not meet the need for affordable housing and opposed allowing units on 10,000 square foot lots.

Los Altos residents Abby Ahrens, Ronit Bodner, Alex Samek, and Sue Russell, representing the League of Women Voters, supported the ordinance and encouraged the Council to allow for flexibility in the architecture of accessory dwelling units.

Los Altos resident Roy Lave suggested that the size of the accessory dwelling unit be tied to the size of the lot.

Los Altos Jeremy Macaluso stated that accessory dwelling units can be less intrusive than large homes.

Mayor Prochnow closed the public hearing.

Action: Upon a motion by Councilmember Bruins, seconded by Vice Mayor Mordo, the Council unanimously continued consideration of Ordinance No. 2017-432 to the May 23, 2017 Council meeting and directed staff to draft an ordinance that incorporates Council direction.

Direction: Councilmembers provided general direction to remove the deed restriction that the principal residence of the property owner be maintained on the property, that the minimum lot size be 10,000 square feet, that the maximum accessory dwelling unit size be 800 square feet, and that the parking requirement be one space per accessory dwelling unit.

DISCUSSION ITEMS CONTINUED

5. 4880 El Camino Real – Elevator Tower Height Waiver: Adopt Resolution No. 2017-14 allowing a development waiver for 4880 El Camino Real to allow the elevator height to 15.5 feet above the roof, but subject to keeping the overall height of the building at 69 feet

Item 5 was continued to the May 23, 2017 Council meeting at the request of the applicant.

7. Affordable Housing Linkage Fees: Direct staff to prepare an ordinance requiring residential and commercial linkage fees

Planning Services Manager Kornfield presented the report.

Public Comments

Los Altos residents Gary Hedden and Sue Russell (representing the League of Women Voters) supported the linkage fees and encouraged the Council to consider fees on low-density housing projects.

Los Altos resident Les Poltrack opposed setting a high fee.

Direction: Councilmembers directed staff to prepare an ordinance requiring residential and commercial linkage fees with a majority providing direction on the following: 1) staff is to propose a fee for owner-unit, multiple-family developments; 2) \$15 per square foot for non-residential developments; 3) \$25 per square foot for office developments; and 4) \$45 per square foot for rental unit, multiple-family developments.

8. Commission recruitment and appointment process: Direct staff on desired changes to how the City recruits and appoints Commissioners

This item was continued to the May 23, 2017 meeting.

INFORMATION ONLY ITEM


- A. 2017 Council Priorities status update

COUNCIL/STAFF REPORTS AND DIRECTIONS ON FUTURE AGENDA ITEMS

None

ADJOURNMENT

Mayor Prochnow adjourned the meeting at 12:07 a.m.


Mary Prochnow, MAYOR
Jon Maginot, CMC, CITY CLERK