

TRANSMITTED VIA EMAIL

December 3, 2017

Mayor Tran and Members of the City Council
City of Milpitas
455 E. Calaveras Blvd.
Milpitas, CA 95035

Re: Affordable Housing Nexus Study

Dear Mayor Tran, Vice Mayor Grilli, and Councilmembers Barbadillo, Nuñez, and Phan,

On behalf of our members, we thank you for taking the initiative to review the City of Milpitas's affordable housing nexus studies and explore local solutions to the housing affordability crisis. As all of Silicon Valley's residents bear the impact of the crisis, it is more important than ever that all 16 of Santa Clara County's jurisdictions work together to respond, and SV@Home supports your efforts to ensure that the City of Milpitas does its part.

As you begin discussing policy options based on the nexus studies, we offer the following recommendations for designing a strong inclusionary housing and non-residential housing impact fee policy. These recommendations reflect best practices that have been tested locally and extensively researched by numerous policy experts throughout the country.

- 1. Establish a 15 percent inclusionary housing requirement for residential development projects, including both for-sale and rental housing.** This level is in line with several other Santa Clara County jurisdictions, including Cupertino, San Jose, Campbell, and Palo Alto, as well as with former Redevelopment Agency inclusionary policies. Additionally, other cities like Mountain View have recently taken action to move toward increasing their inclusionary requirement to 15 percent. In a market as strong as Silicon Valley's, a 15 percent requirement is both feasible and essential for ensuring that the City's affordable housing stock grows as new market rate developments come online.

With the passage of AB 1505, the City of Milpitas has a tremendous opportunity to drive the creation affordable housing. It can now go beyond the impact fees discussed in the December 2016 residential nexus study and instead apply its inclusionary housing requirement to market rate rental developments. We urge the City to leverage this new tool to the fullest extent possible by setting its inclusionary housing requirement at 15 percent.

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- 2. Provide alternative compliance options as mandated by AB 1505:** Rather than strictly requiring the developer of a qualifying project to build and integrate rental inclusionary units within their development, a jurisdiction must offer alternative options for fulfilling the inclusionary housing obligation. These options could include paying an in-lieu fee, partnering with an affordable housing developer to build deed-restricted units, dedicating land to the City for future affordable housing development, or purchasing units in other developments.

These alternatives are critical for two reasons. First, they provide developers with flexibility that may be needed to achieve project feasibility, thus facilitating the creation of much needed housing. This sort of flexibility allows the developer and the City to work together in determining the option that works best for both the City and the project.

Second, such alternative compliance options can result in the creation of more affordable units and/or more deeply affordable units, particularly if the City or an affordable housing developer can access leveraged funds such as Low Income Housing Tax Credit (LIHTC) funding or the County's Measure A bond funds. We encourage the City of Milpitas to design its affordable housing requirements in a manner that allows it to utilize the full range of policy tools and resources available to local jurisdictions – which includes these County, State, and federal resources – to provide housing for as many households as possible.

SV@Home recommends that the City provide for-sale and rental housing developers with a menu of alternative compliance options to consider, and in the event that a developer expresses interest in pursuing one of the options, negotiate to arrive at a compliance plan that works well for the project and supports the city's affordable housing goals.

- 3. Ensure that affordable rental units created through the inclusionary housing program provide homes for low-income individuals and families (those earning 0 – 80 percent of AMI) who face deeper challenges to securing affordable housing.** According to the City of Milpitas's 2014-2022 Regional Housing Needs Allocation (RHNA), the City needs 1,574 new homes for very low- and low-income households. This is equivalent to 48 percent of Milpitas's overall allocation – approximately one thousand more than the number of moderate-income homes needed (565), and still more than the number of above moderate-income homes needed in the same time period. It is critical that the City designs its inclusionary housing policy in a way that specifically addresses this need for low-income housing. To do so, the affordability requirements for rental inclusionary units should be set at 80 percent of AMI or below.
- 4. Adopt a commercial linkage fee/housing impact fee for all non-residential development, including office, retail, hotel, and industrial uses at levels comparable to other Santa Clara County jurisdictions.** Because all forms of development generate a need for more affordable housing, it is critical that non-residential developments also contribute to local jurisdictions' efforts to build more housing. The City's non-residential nexus analysis clearly shows the impact that new commercial development will have, concluding that 88 to 94 percent of service sector workers who will fill the jobs resulting from this development will be low-income.

SV@Home thus strongly recommends that the City of Milpitas require developers of newly

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constructed commercial developments and other non-residential buildings to pay housing impact fees as part of their projects. The City can then combine these fees with revenue from housing in-lieu fees to increase their ability to pursue partnerships with nonprofit affordable housing developers to build affordable housing.

We are encouraging every jurisdiction in the County to adopt these recommendations and contribute to creating more consistent affordable housing requirements from one city to the next. This is important for developers, who are better able to make projects pencil in a predictable policy environment, but more importantly, this allows all 16 Santa Clara County jurisdictions to work together by aligning their local affordable housing policies in a manner that adds up to an effective Countywide response.

Again, we thank you for your leadership and commitment to making Milpitas a more affordable city. We appreciate the opportunity to provide our input and welcome further conversation with you about our recommendations. Thank you for your consideration.

Sincerely,



Pilar Lorenzana
Deputy Director

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