

**ATTACHMENT B-3.1**  
**INCLUSIONARY HOUSING ORDINANCE (IHO) COMPLIANCE OPTIONS:**  
**ILLUSTRATIVE CALCULATION OF THE RENTAL IN-LIEU FEE**  
**COMPLIANCE OPTION FOR FY2018-2019**  
**(RENTAL)**

This attachment to the Guidelines provides more information on how calculating the Rental In-Lieu Fee compliance option and illustrates the calculations involved in that process. The figures below reflect the In-Lieu Fee effective January 1, 2018 to June 30, 2019. Definitions for capitalized terms may be found in the Guidelines and the Ordinance.

**I. Calculation of the Rental In-Lieu Fee (SJMC Section 5.08.520)**

The In-Lieu Fee for each Rental Inclusionary Unit is based upon the average City subsidy required for new construction of a rental residential unit at an Affordable Housing Cost for a Lower Income Household. The initial In-Lieu Fee for rentals is based on data from three City-subsidized affordable housing rental developments and application of the following methodology:

- 1) Calculated the sum of City subsidies required for new construction of affordable rental residential units at an Affordable Housing Cost for a Lower Income Household within the three projects identified;
- 2) Calculated the total number of units within the three projects identified;
- 3) Divided the total subsidy figure by the total number of units to obtain the average City subsidy per constructed unit required to create the affordable apartments; and
- 4) Multiplied the average subsidy by 3.8% to account for the estimated cost of increases in the price of housing and construction from the time of payment of the In-Lieu Fee to the estimated time of provision of the affordable units by the City (2 years). The 3.8% delay factor was derived by utilizing the Consumer Price Index (CPI), as published by the U. S. Bureau of Labor Statistics on September 14, 2017, for the past 12-month period (+1.9%) and applying this annual figure to an anticipated 2-year delay. The result was then rounded down to the nearest \$1,000.

**II. In-Lieu Fee Additional Charges**

The Ordinance also allows the Housing Department to collect an administrative fee to account for the estimated costs of administration. This administrative fee may be levied as part of the In-Lieu Fee or as a separate charge. In addition, the in-lieu fee can account for the estimated cost of increases in the price of housing and construction between payment and the acquisition of land and construction of units.

For FY 2018-19, the Housing Department will collect an administrative fee in the form of an application fee of \$4,582. Therefore, the In-Lieu Fee described in this document does not currently include an administrative fee in the calculation.

To address estimated increases in the cost of housing and construction between the time of payment of the In-Lieu Fee and the acquisition of land and construction of units, the Housing Department will has adopted a nominal 2% increase to the fee for that delay (assumes two years). The Housing Department will update this methodology during FY 2018-19 by identifying the appropriate delivery time delay and researching and identifying an appropriate index that accounts for cost increases in the price of housing and construction, which will be included in the In-Lieu Fee calculation in future years.

**III. Initial Calculation of the Rental In-Lieu Fee (SJMC Section 5.08.520)**

The calculation is shown in the table below. The final figure equals the average City subsidy per unit, which shall be applied to the number of units for which the In-Lieu Fee shall be collected (20% of all units in the Residential Development).

**Calculation of the Rental In-Lieu Fee Compliance Option**

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Closing Date</b>	<b>Project</b>	<b>City Subsidy</b>	<b># of Units</b>	<b>City Subsidy per Unit</b>	<b>3.8% Increase Due to Delay*</b>
03/17/2015	Met North	\$15,045,000	70	\$214,929	
04/25/2016	Met South	\$3,735,000	30	\$124,500	
12/12/2016	2 <sup>nd</sup> Street Studios	\$16,915,713	134	\$126,237	
	<b>Totals</b>	<b>\$35,695,713</b>	<b>234</b>	<b>\$152,546</b>	<b>\$158,343</b>

Total City Funding Committed to Affordable Housing Developments (Column B):	\$35,695,713
	÷
Divided by the Total Number of Units (Column C):	<u>234</u>
	=
Fee per Inclusionary Unit:	\$152,546
	+
In-Lieu Fee Additional Charges:	<u>\$ 0</u>
[Administrative Fee]	+
3.8% Increase Due to Delay:	<u>\$ 5,797</u>
	=
In-lieu fee per unit:	<b>\$158,343</b>

\* To account for the estimated cost of increases in the price of housing and construction from the time of payment of the In-Lieu Fee to the estimated time for funding of the affordable units by the City (2 years).

\*\* The calculation of the In-Lieu Fee can be no greater than the average City subsidy required for new construction of a rental residential unit at an Affordable Housing Cost for a Lower Income Household.

**IV. Adopted In-Lieu Fee (Effective January 1, 2018 to June 30, 2019)**

On December 19, 2017, the San José City Council adopted a resolution amending the 2017-18 City of San José Schedule of Fees and Charges to establish an In-Lieu Fee of \$125,000 per unit for rental development (based on the Housing Department’s unit subsidy for the most recent funding commitments) subject to the Inclusionary Housing Ordinance Program effective January 1, 2018.

The figure of \$125,000 reflects the average City subsidy per the Housing Department’s most recent funding commitments for uncompleted projects. Per the staff recommendation and City Council adoption, this initial In-Lieu Fee will be in place for 18 months to provide some certainty.

Please see the calculation below using an example 100-unit Residential Development project:

Total Number of Residential Units:	100
	x
Multiplied by 20%:	<u>20%</u>
	=
Units required to pay In-Lieu fee:	20
	x
In-Lieu fee per unit:	<u>\$ 125,000</u>
In-Lieu fee for a 100-unit Residential Development:	<b>\$ 2,500,000</b>