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TRANSMITTED VIA EMAIL

March 4, 2019
Mayor Tran and Members of the City Council
City of Milpitas
455 E. Calaveras Blvd.
Milpitas, CA 95035

Dear Mayor Tran, Vice Mayor Dominguez, and Councilmembers Montano, Nunez, and Phan,

Re: Adoption of Fees for Residential Ownership Developments, Residential Rental Developments, and Non-Residential Developments

On behalf of our members, we write today to provide comments on the adoption of fees for residential and non-residential developments as part of the Affordable Housing Ordinance adopted by the Council on June 19, 2018.

Inclusionary In-lieu Fees

The intent of the Inclusionary in-lieu fee is to provide an alternative means of fulfilling the inclusionary requirement that 15% of new units be set aside as affordable. The fee should be set at a rate that reflects the cost of building the affordable units when the developer chooses not to build the units on site. If fees are set too low, developers will have an incentive to pay the fees rather than build the units. Last June, it was our understanding that both staff and the Council preferred that the affordable homes be integrated in developments whenever possible, and that if developers were allowed to pay the in-lieu fees that they should be required to cover the cost of developing the affordable homes.

We support the staff recommendation at that time, which was **\$33 per square foot for ownership, and \$31 dollars per square foot for rental units**. We support these level for the following reasons:

- These fees are supported by the feasibility analysis presented in the Nexus Study (December, 2016) prepared to assess reasonable fee levels. At that time, replacing units in low-density rental developments supported a fee of \$20.00 a square foot, while high-density rental – which is far more likely to be built in Milpitas at this time-- would require upwards of \$40 a square foot. This analysis is reproduced in the current staff report on page 51.
- This range represents reasonable replacement costs and reasonable rents at the time of the study, over two years ago. Both costs and rents have increased significantly since then. The analysis concluded that a fee of \$40 per square foot could be supported if rents increased by 5.6%. Rent Café estimates that

rents in Milpitas have increased by over 12% between January of 2017 and February of 2019.

Non-residential affordable housing impact fees

Non-residential, or Commercial Linkage Fees are intended to address the demand for housing created by job producing development. The Nexus Study calculated this gap at over \$142 a square foot for office and \$149 a square foot for light industrial and manufacturing. The goal however, is to find a reasonable fee level that generates resources for affordable housing in response to this gap, but does not unreasonably deter commercial development.

Last year we recommended that Milpitas adopt the fee structure approved for Fremont in 2017.

Non-Residential Commercial Linkage Fees- City of Fremont

Land Use	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Each Jan. 1 thereafter
Light Industrial, Manufacturing, and Warehouse	\$1.00	\$3.00	\$4.00	Rate Indexed
Hotel, Office, R&D, and Retail/Service	\$4.00	\$6.00	\$8.00	Rate Indexed

We are again proposing this model for Milpitas with the dates adjusted to begin a phase-in period on July 1, 2019, which will mature to \$4.00 and \$8.00 on July 1, 2021. Staff is proposing fees that will mature to \$3.00 for industrial and \$7.00 for hotel, office and retail. We believe the slightly higher fees as recommended in the city’s Nexus Study are reasonable.

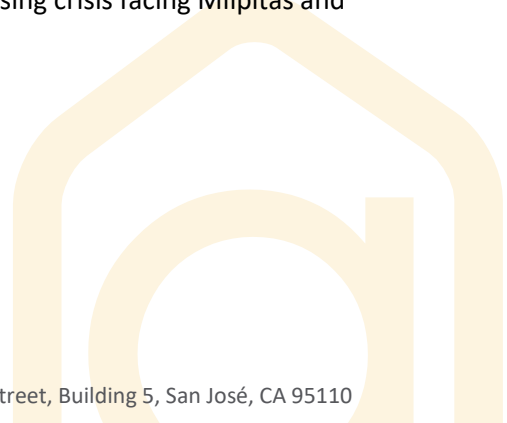
We are concerned about the staff’s proposed exemption for Class A office and any significant Advanced Manufacturing facility from this fee. While we appreciate the city’s goals of creating incentives for commercial development, any exemptions must include a sunset date. We would recommend that the exemption be extended during the proposed phase-in period for the fee, and be allowed to expire in July, 2021 when the fee matures.

Setting appropriate fees on residential and non-residential development for Milpitas will allow the city to expand its affordable housing resources as the city experiences growth.

We would like to thank city staff for their extensive outreach to stakeholders and for working to bring this proposed ordinance before you. We would also like to thank the Council for your leadership on housing issues and look forward to working with you to address the housing crisis facing Milpitas and the surrounding community.

Sincerely,

Leslye Corsiglia
 Executive Director



Honorable Mayor Tran and Milpitas Council
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