



REPORT TO THE CITY COUNCIL

DATE ISSUED: May 5, 2011

REPORT NO: CCR 11-001

ATTENTION: Council President and Members of the City Council
For the Agenda of July 11, 2011

SUBJECT: Housing Impact Fee Recommendations

COUNCIL DISTRICT: Citywide

REQUESTED ACTION:

That the City Council approves the recommendations from the Land Use and Housing Committee (LU&H) and the San Diego Housing Commission for changes to the Housing Impact Fee, as included in this report.

SUMMARY:

The City of San Diego's Housing Impact Fee (referred to as "linkage" fee) was initially established through a nexus study performed in 1989. At that time, the fee levels were set at an amount equal to approximately ten percent of the impact on low income residents earning below 80 percent Area Median Income (AMI). In 1996 Housing Impact fee levels were reduced by fifty percent (50%). Since 1996 there has not been an adjustment to the Housing Impact fee and, as a result, the current levels, which range from \$0.27 to \$1.06/SF based on development type, remain substantially below the original nexus amounts.

At the November 10, 2010 LU&H meeting, Housing Commission (HC) staff was directed to analyze the Jobs Housing Nexus Study that was completed by Keyser Marston Associates in October 2010. That study included analysis and explanation of the nexus between job creation and the need for additional affordable housing as well as recommendations and options for the Housing Impact Fee currently in place in the City of San Diego. During the LU&H meeting, the need for broader public review and input was discussed and the HC staff was instructed to provide an opportunity for the general public to review the proposed recommendations and to provide written comments in a March 2011 report to LU&H. On March 30, 2011, the Housing Commission presented recommendations for changes to the Housing Impact Fee to the Land Use & Housing Committee. LU&H recommended that the City Council approve the recommendations for the changes to the Housing Impact Fee as included this report.

This report includes final recommendations from the Housing Commission following meetings with interested stakeholders, publication of draft recommendations, meetings and discussions held throughout the public comment period, which closed on March 18, 2011. The final recommendations were prepared considering the continuing need for affordable housing while at the same time acknowledging the severity of the current economic situation in the region.

Recommendations for the Housing Impact Fee (Linkage Fees)

1. Maintain current fees for two years (July 1, 2011 through June 30, 2013).

The Table below shows the current fee levels:

Land-Use	Current Fee (\$/SF)
Retail	\$0.64
Office	\$1.06
Warehouse	\$0.27
Manufacturing	\$0.64
R&D*	\$0.80
Hotel	\$0.64
Education**	\$0.80
Medical***	\$1.06

*R&D uses fall under manufacturing within San Diego’s land use code definitions.

**Currently no separate fee for Education. R&D fee is being applied.

***Currently no separate for Medical. Office fee is being applied.

NOTE: The City Council has approved revisions to the current Housing Impact Fee Ordinance. Once the revised Ordinance is available, the Fee Schedule will be modified to reflect the land use groupings.

- Beginning in July 2013, increase the Housing Impact Fee by twenty percent (20%) each year for five years so that by July 2017, the fee returns to the 1990 levels. The chart below demonstrates the recommended levels for each of the five years.

Land Use	Current Fee (\$/SF)	Future Fees (\$/SF)				
		07/2013	07/2014	07/2015	07/2016	07/2017
Retail	\$0.64	\$0.76	\$0.89	\$1.02	\$1.15	\$1.28
Office	\$1.06	\$1.27	\$1.49	\$1.70	\$1.91	\$2.12
Warehouse	\$0.27	\$0.32	\$0.38	\$0.43	\$0.49	\$0.54
Manufacturing	\$0.64	\$0.76	\$0.89	\$1.02	\$1.15	\$1.28
R&D*	\$0.80	\$0.96	\$1.12	\$1.28	\$1.44	\$1.60
Hotel	\$0.64	\$0.76	\$0.89	\$1.02	\$1.15	\$1.28
Education**	\$0.80	\$0.96	\$1.12	\$1.28	\$1.44	\$1.60
Medical***	\$1.06	\$1.27	\$1.49	\$1.70	\$1.91	\$2.12

- Beginning in July 2018, adjust the fee based on the most recently published Building Cost Index (BCI). This may result in an increase or a decrease to the fee levels.
- Utilize the same process currently in place for Inclusionary Housing fee adjustments. That is, Housing Commission staff will adjust the fee according to recommendations two and three above, and forward to the City Council by June 1st of each year to provide adequate time for the Council to review the adjusted fee and call for formal review by the City Council, if desired.

During the LU& H meeting, Committee members requested that the following actions:

- Further analysis from the Independent Budget Analyst (IBA) on the options Council could consider regarding an annual adjustment mechanism (other than the Building Cost Index), and the most appropriate cost methodology and economic “trigger” to signal economic recovery.

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6. That the City Attorney work with the IBA to identify what Municipal Code changes would be required, and if Proposition 26 would have an impact on the suggested mechanism or methodologies that the IBA is reviewing.
7. That the City Attorney look at organizations that are exempt from fees or are eligible for waivers to see if such allowances exist for Conditional Use Permits and Neighborhood Use Permits in San Diego Municipal Code Section 112.0203 to be included in 98.0608.

Public's Review of Recommendations and Comments

2011 Affordable Housing Task Force

On January 19, 2011, Housing Commission conducted a stakeholders meeting. A PowerPoint presentation highlighted housing needs information and current policies and incentives. The presentation also summarized the various reports/tools developed over the years around linkage and increasing affordable housing in the City. The meeting attendees discussed several ideas for how to review, analyze, and make recommendations from both the Linkage/Nexus Study and Affordable Housing Best Practices reports.

As a result of the discussion, it was decided that the Housing Commission staff would publish draft recommendations and conduct a public comment period. To consider and make recommendations on best practices and other revenue sources to fund affordable housing development, a Task Force was formed. This Task Force, co-chaired by Susan Tinsky and Matt Adams, met and discussed several options. Those discussions, continuing in May 2011, are the subject of a separate report on today's agenda.

Public Comment Period

Public notices of draft recommendations were posted February 24, 2011 in the San Diego Union Tribune, San Diego Daily Transcript, La Prensa, the Voice and Viewpoint and on the Housing Commission's website for public review and comment thru March 18, 2011.

Throughout the public comment period, Housing Commission staff met and discussed concerns related to fee levels and the current economic health of the region. After analyzing the input from various parties, the Housing Commission developed its final recommendations, focused on a continuing goal to further the development of additional affordable housing without placing additional stress on the economic recovery.

FISCAL CONSIDERATIONS: The Housing Impact Fee (Linkage Fee) is the only current source of the Housing Trust Fund (HTF) revenue. Linkage fees are deposited into the City of San Diego's Housing Trust Fund, which is administered by the San Diego Housing Commission ("Commission"). Annually, the Housing Commission allocates Housing Trust Fund monies to a variety of eligible uses, including rental housing development and special needs housing.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The City Internal Auditor's Office presented its performance audit report to the Land Use & Housing Committee on September 2, 2009, and to the Housing Authority on October 20, 2009. San Diego Housing Commission conducted a workshop on November 10, 2010 with LU&H regarding the recommendations of the two studies. On March 30, 2011, this item was presented at the Land Use & Housing Committee Meeting.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The San Diego Housing Commission conducted a series of meetings with stakeholders on December 8, 2010, January 20, 2011, and March 22, 2011. An Affordable Housing Task Force consisting of stakeholders reviewed the current and past report recommendations on January 25, 2011 and February 9, 2011 and provided its recommendations. Public notices of draft recommendations were posted February 24, 2011 in the San Diego Union Tribune, San Diego Daily Transcript, La Prensa, the Voice and Viewpoint, and on the Housing Commission's website for public comment thru March 18, 2011. Following the public notice period, HC held a Stakeholders meeting on March 24, 2011 to discuss the proposed changes to Housing Impact Fee and receive public comment.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

There is an array of key stakeholders who are either directly or indirectly impacted by any change to the Housing Impact Fee levels ranging from affordable housing advocates to the business community.

ENVIRONMENTAL REVIEW:

The proposed activity is not a project within the meaning of the California Environmental Quality Act (CEQA); therefore no CEQA processing is required. The project is exempt from processing under the National Environmental Policy Act since no federal funds are involved in this action.

Respectfully submitted,



John H. L. Nash, Jr.
Director of Policy

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.