

(R-95-1901)

RESOLUTION NUMBER R- 286015

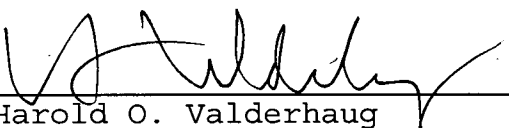
ADOPTED ON JUN 26 1995

WHEREAS, the City Manager has recommended a waiver of Housing Trust Fund fees in the San Ysidro/Otay Mesa Enterprise Zone for reasons and under conditions as set forth in the attached Manager's Report No. 95-121; NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that the Council finds that, for the reasons set forth in the attached Manager's Report, the waiving of Housing Trust Fund fees in the San Ysidro/Otay Mesa Enterprise Zone is in the best interests of the City of San Diego, and the City Manager is hereby authorized to waive such fees under the terms and conditions set forth in the attached Manager's Report.

APPROVED: JOHN W. WITT, City Attorney

By


Harold O. Valderhaug
Chief Deputy City Attorney

HOV:ps
06/15/95
Or.Dept:Mayor
R-95-1901
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MANAGER'S REPORT

DATE ISSUED: May 17, 1995

REPORT NO. 95-121

ATTENTION: Rules Committee Agenda of May 22, 1995

SUBJECT: Housing Trust Fund Fees in the San Ysidro/Otay Mesa Enterprise Zone

REFERENCE: City Council Resolutions R-262864, R-276382
City Manager Reports No. 94-349, No. 95-65

SUMMARY:

Issue -- Should the City Council waive Housing Trust Fund fees in the San Ysidro/Otay Mesa Enterprise Zone?

Manager's Recommendation -- Waive the Housing Trust Fund fees for commercial and industrial projects in the Zone.

Other Recommendations -- The Otay Mesa Chamber of Commerce concurs with the Manager's recommendation

Fiscal Impact - None with this action.

BACKGROUND

Enterprise zones are State-designated geographic areas within which businesses may claim various State income tax and other benefits. The purpose of these benefits is to promote business investment and jobs. A zone must include a residential area with high unemployment, and an area that can provide substantial job opportunities, either industrial, commercial, or both. In October, 1986, San Diego's first zone was designated in the Southeast/Barrio Logan area. In January, 1991, the second zone was designated encompassing the San Ysidro and Otay Mesa communities. Under an agreement with the State of California, the City provide local administration and business incentives.

In 1987, several months after the Southeast/Barrio Logan Zone was designated, the City Council adopted Urban Impact Fees. The Council determined that, since enterprise zones were established

to serve as an area of incentives for business investment, Urban Impact Fees would be exempted on business investments in the zone.

In April, 1990, the City Council adopted the ordinance establishing and governing the San Diego Housing Trust Fund. Part of the funding consisted of fees on new commercial and industrial development. At that time, several types of projects were exempted from the fee, including non-residential uses located in the Southeast/Barrio Logan Enterprise Zone. The exemption was based on the same consideration as the Urban Impact Fee exemption.

In August, 1990, the City Council authorized the City Manager to prepare and submit an application for enterprise zone designation for the San Ysidro/Otay Mesa area. The Council specifically discussed the issue of whether business development should be exempted from the Housing Trust Fund Fees. The Housing Commission opposed an exemption, while State regulations governing Enterprise Zone designation required that the local jurisdiction provide some means of fee relief. As a compromise approach, the City Manager was authorized to negotiate, on a case-by-case basis, a waiver or reduction of any appropriate development fees on commercial or industrial projects within the Zone, subject to the Council's approval.

DISCUSSION

San Diego's Enterprise Zone Program has been an important economic development tool for stimulating job development and business investment. Since its inception, the Program has placed over 3,000 low income persons into jobs and stimulated more than \$66 million in construction investment. As competition for job-creating businesses has intensified throughout the country and abroad, with states and cities offering substantial incentives for new business relocation, the Enterprise Zone Program has become increasingly important as a business attraction and expansion tool.

From the City's perspective, enterprise zones are cost-effective because most of the cost of the Program's incentives is borne by the State in the form of foregone tax revenue. The City pays only for local administration and local incentives. Local incentives include expedited permit processing, access to partnership organizations that provide technical and financial assistance, a job referral service for businesses, and, in the Southeast/Barrio Logan Zone, the blanket waiver of Urban Impact Fees and Housing Trust Fund fees.

When the City was preparing the San Ysidro/Otay Mesa Zone application, staff explored various ways to achieve fee reductions. The types of fees applicable include development impact fees (DIF), Housing Trust Fund Fees, water and sewer capacity fees, school fees, and the various permit fees. Of these, DIFs are established through developer agreements to repay the developers' infrastructure costs and provide for future needed development; water capacity fees in Otay are under a separate water utility district, so are outside the City's control, while sewer capacity fees and water fees in San Ysidro can be reduced only through an ordinance amendment (which has been accomplished with a separate policy goal, *see* City Manager's Report No. 94-349); school fees are mandated by the State and thus cannot be reduced or waived; and permit fees are deposited into "enterprise fund" accounts to pay for the cost of the permit, thus cannot be reduced or waived without an alternative source. Therefore, by process of elimination, the only fee subject to reduction or waiver is the Housing Trust Fund Fee.

The current policy in the San Ysidro/Otay Mesa Zone of negotiating fee reductions or waivers on a case-by-case basis subject to the Council's approval has been exercised on only three occasions. Until summer, 1994, business development activity consisted entirely of tenant improvements. However, as San Diego's reputation for its business-friendly environment has grown, new construction projects have started to come forward. The case-by-case approach to fee reductions poses serious difficulties: the policy is difficult to apply in negotiating with a company on the specifics of fees; it demands extensive staff and Council time in considering each application; and it opens up the City to complaints from businesses of being treated arbitrarily.

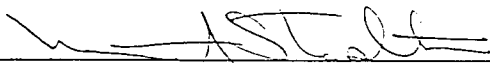
Given the blanket waiver of Housing Trust Fund fees in the Southeast/Barrio Logan Zone, it is recommended that a waiver also be adopted as the policy for the San Ysidro/Otay Mesa Zone. To ensure accomplishing the City's goal of making jobs available, to the greatest extent possible, to residents of the Zones, it is also recommended that the City require any businesses to sign a "first source hiring agreement," (i.e., stating the company's intent to give first consideration to hiring through the Enterprise Zone Job Referral Service, operated by the San Diego Consortium & Private Industry Council) as a condition of its receiving the Trust Fund Fee waiver. This requirement should be adopted for **both** enterprise zones.


CONCLUSION

A waiver of Housing Trust Fund Fees would serve as a substantial incentive in the San Ysidro/Otay Mesa Enterprise Zone, consistent with the City's agreement with the State of California designating the Zone. With a condition that such waivers be accompanied with a "first source hiring agreement," this policy should foster both investment in the area and jobs for residents.

ALTERNATIVES

- 1.) Retain the current policy of reducing or waiving Housing Trust Fund fees on a case-by-case basis, subject to City Council review and approval.
- 2.) Authorize an automatic Housing Trust Fund fee reduction equal to the percentage of local employees that each business agrees to hire, as was done in the case of Howard Leight Industries.
- 3.) Authorize a waiver or reduction of other fees associated with the project. This is not recommended because of the impact on the General Fund.


Approved: Maureen A. Stapleton
Assistant City Manager


Submitted by: Kurt A. Chilcott, Director
Economic Development Services
236-6550

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