SAN DIEGO HOUSING COMMISSION

SDHC

LAND USE & HOUSING REPORT

DATE ISSUED: November 4, 2010 **REPORT NO**: LUH 10-010

ATTENTION: Chair and Members of the Land Use & Housing Committee
For the Agenda of November 10, 2010

SUBJECT: Discussion on Jobs Housing Nexus Study and Affordable Housing Best Practices and Funding Sources Study

STAFF RECOMMENDATION: That the Land Use and Housing Committee direct the Housing Commission to analyze the subject reports, conduct a public process to include discussion with and input from interested stakeholders and return to LU&H in early 2011 with recommendations on potential actions on both reports.

SUMMARY:
The City's Internal Auditor's office presented its performance audit report of the San Diego Housing Commission (SDHC) to the Land Use and Housing Committee (LU&H) on September 2, 2009. Included in the report were recommended actions regarding updates to the Housing Impact Fee and the process by which the fee is revised by the City Council. After review of the performance audit report, LU&H and the Housing Authority directed SDHC to: (1) determine if the rationale for the housing impact fee nexus is out of date considering the current economic situation, with specific recommendations for changes to the established protocol; and, (2) collect data on what other jurisdictions, similar to San Diego, do or plan to do to increase their affordable housing stock.

Today's presentation and discussion will provide background on the City's Housing Trust Fund relative to the Housing Impact Fee and highlights the key recommendations set forth by the authors of the Jobs Housing Nexus Study and Affordable Housing Best Practices and Funding Sources Study.

Housing Trust Fund

The Housing Trust Fund (HTF) is a locally conceived and operated program designed with maximum flexibility to respond to a wide range of community housing needs. The housing impact fee, known as the linkage fee, is meant to mitigate the increased need for affordable housing due to employment growth. Additional jobs generally create a need for additional employee housing with the highest need being affordable housing for lower income groups.

The City of San Diego's 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 10% of the impact on low income residents earning below 80% Area Median Income (AMI). In 1996, San Diego's linkage fee levels were reduced by fifty percent. As a result, the current levels, which range from $0.27 to $1.06/SF based on development type, are substantially below the original fee levels.

I. Jobs /Housing Nexus Study

The recently completed Jobs Housing Nexus analysis documents the linkages among construction of workplace buildings (such as office, retail, hotel, etc.), the employees that work in them, and the need for affordable housing. In addition, KMA, at the request of SDHC, provided recommendations as to the fee levels and potential indices for consideration by the City of San Diego. All of the various criteria and considerations outlined in their report formulate the following recommendations:

- Maintain Current Fee Until the Economy Improves – Once there is evidence the economy is recovering, the fee should be adjusted. This is probably best accomplished by including an economic indicator or trigger feature in the ordinance that provides an automatic adjustment.
- Consider a Range of Options for Increased Fees Once Economy Improves –The fee could be increased once improved economic conditions are evident. The selections of the ranges of fee levels should be based on their relationship to market strength and total development cost.
- Apply an Annual Index - Application of an annual index to the fee level is necessary to maintain the ability to mitigate impacts over time. The current index, the Building Cost Index for twenty cities published by ENR, should remain in place. However, the ordinance should be modified to make application of the index automatic rather than subject to a discretionary action by the City Council each year.
- Consider Revising Exemptions or Modifications for Certain Uses – Examples may include hospitals, schools, or child care centers.

2. *Affordable Housing Best Practices and Funding Sources Study*

Although economic conditions have changed substantially since various task force efforts in 1989, 1995, and 2002, many of the same policy and funding recommendations remain relevant. The experience of other competitive regions across the United States suggests that communities with a broad and balanced set of policy and funding tools tend to perform better in terms of housing production than those which rely on just a few major programs or policies. Outlined below are recommendations set forth by Bay Area Economics (BAE) resulting from the data collected and their subsequent analysis:

- Engage Civic Leaders from the Business and Philanthropic Community in a renewed effort to support affordable housing.
- Form a Regional Land Bank.
- Increase the amount of CDBG Funding Dedicated to Affordable Housing.
- Increase the Percentage of Redevelopment Tax Increment Funding Dedicated to Housing.
- Maintain and Update Inclusionary Housing Program.
- Maintain and Update Commercial Linkage Fee.
- Consider Forming Affordable Housing Overlay Zoning in Key Parts of the City.
- Dedicate a Percentage of Transient Occupancy Tax (TOT) Revenues to the Housing Trust Fund.
- Consider Forming a "Leading Way Fund" – similar to the Boston model in which one-time city revenues are collected to support affordable housing production.

The Housing Commission worked with two consulting firms to complete the studies in response to the direction provided by the Land Use and Housing Committee and the Housing Authority. The central question is how best to responsibly fund the production of affordable housing in the City of San Diego.

Consequently, the studies and recommendations should be reviewed and considered together within a broader discussion that would lead to a consensus on the implementation of a stable, reliable revenue stream for the Housing Trust Fund.

EQUAL OPPORTUNITY/CONTRACTING: Keyser Marston Associates is not certified as a Disadvantaged, Women Owned or Disabled Veteran Business Enterprise. A Certificate of Compliance and a Workforce Analysis were provided to show that this vendor is in compliance with the SDHC Equal Opportunity Program, Federal, State and Local laws. Information in the Workforce Analysis indicates that 63 percent of the company's workforce is disadvantaged. Bay Area Economics (BAE) is certified as a Disadvantaged Business Enterprise (DBE). A Certificate of Compliance and a Workforce Analysis were provided to show that this vendor is in compliance with the SDHC Equal Opportunity Program, Federal, State and Local laws. Information in the Workforce Analysis indicates that 70 percent of the company's workforce is disadvantaged.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: The City 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.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: The Housing Commission convened a committee of stakeholders that met for several months in the fall of 2009 and into winter 2010 to develop a scope of services for this work. The SDHC hosted meetings on July 22, 2010 and September 9, 2010 to provide interested parties with an update of the two studies and to solicit comments/feedback. In addition, the SDHC has met with the San Diego Housing Federation (September 1, 2010), Building Office Management Association – BOMA (September 22, 2010), National Association of Industrial and Office Properties – NAIOP (October 7, 2010) and San Diego Chamber of Commerce (October 20, 2010).

ENVIRONMENTAL REVIEW: This activity is not a project within the meaning of the California Quality Act (CEQA) pursuant to Section 15060©(3) of the State CEQU guidelines. This activity is also exempt from review under the National Environmental Policy Act per 24.CFR 58.34(a)(3).

Respectfully submitted,

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

Approved by,

Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

Attachments: 1. Jobs/Housing Nexus Study
2. Affordable Housing Best Practices & Funding Study

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.