



LAND USE & HOUSING REPORT

DATE ISSUED: March 20, 2011

REPORT NO: LUH 11-004

ATTENTION: Chair and Members of the Land Use & Housing Committee
For the Agenda of March 30, 2011

SUBJECT: Housing Impact Fee Recommendations

STAFF RECOMMENDATION: That the Land Use and Housing Committee (LU&H) review and forward to the City Council, with a recommendation to approve, the San Diego Housing Commission's recommendations 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 10 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 2010 LU&H meeting, the Housing Commission staff was directed to analyze the Jobs Housing Nexus Study prepared 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 November 10, 2010 LU&H meeting, the need for broader public review and input was discussed and the SDHC staff was instructed to provide an opportunity for the general public to review the proposed recommendations and to provide written comments that will be included in the March 2011 report to LU&H.

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 may consider revisions to the current Housing Impact Fee Ordinance. Depending on City Council action, the recommendations included in this report will be modified.

2. 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)	Current Fee (\$/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

3. Beginning in July 2018, adjust the fee based on the most recently published Building Cost Index (BCI).
4. Utilize the same process in place for Inclusionary Housing fee adjustments. That is, Housing Commission staff will adjust the fee according to the recommendations 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.

Public's Review of Recommendations and Comments

2011 Affordable Housing Task Force

On January 19, 2011, HC conducted a stakeholders meeting. A PowerPoint presentation was given that highlighted the 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, planned to continue beginning in April 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.

Responses to LU&H Questions

During the November 10, 2011 LU&H meeting, Committee members asked a series of questions and instructed Housing Commission staff to provide responses. Attachment 1 highlights the specific questions posed and subsequent responses. In addition, Attachment 2 is a list of projects, by council district, that have received funding from the housing impact fees collected, the amount of the investment and the total other leverage. Attachment 3 is the total Housing Trust Fund Revenue received and separates out the housing impact fee (linkage) from other revenues used in the HTF for specific projects.

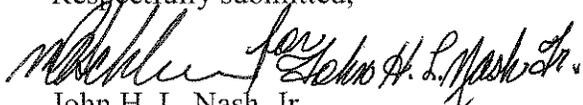
PREVIOUS COUNCIL and/or COMMITTEE ACTION:

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.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

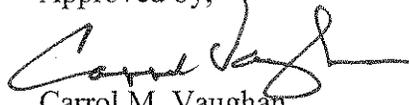
The San Diego Housing Commission conducted a series of meetings with stakeholders on December 8, 2010, January 20, 2011, and March 22, 2011. An Affordable Housing Task Force consisting of stakeholders reviewed the current and past report recommendations on January 25, 2011 and February 9, 2011 and provided 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.

Respectfully submitted,



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

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

- Attachments: Attachment 1: Responses to Questions from LU&H Committee
Attachment 2: Projects Receiving Housing Impact Fee Financing
Attachment 3: HTF Revenue to Date
Attachment 4: Written Comments

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.

ATTACHMENT 1

RESPONSES TO QUESTIONS FROM THE LU&H COMMITTEE MEMBERS

Outlined below are the San Diego Housing Commission's responses to questions brought forth by the members at the Land Use & Housing Committee meeting held on November 10, 2010. The responses are broken down per councilmember and subject matter.

Todd Gloria:

- Transient Occupancy Tax (TOT)
 - What was the original level of obligation of the TOT? Using 1990 as a starting point and six-ninths of collected TOT as the base, the HTF was designated to receive one half of any increase on six-ninths of TOT in later years. In FY93 City Council voted to suspend dedication of TOT revenues to the HTF. The HTF received \$3,070,884 of TOT for FY92. Another \$115,000 is recorded for FY FY98.
 - How much money was actually contributed by TOT for affordable housing? \$3,185,884.
 - What is TOT used for today? No new TOT revenue for the HTF since FY98. The small balance in the fund –from loan repayments or interest income- is expected to be expended in FY11 for rehab at the Mason Hotel. TOT was used for rental housing development, rental housing rehab, Early Assistance grants to nonprofit developers, at least one Capacity Building grant for nonprofit developer training, Target of Opportunity grants to nonprofits, and one first time homebuyer. **Currently, the TOT is used by the City.**

- Community involvement and input into future discussions of the studies and funding of affordable housing.
 - Linkage Stakeholders Meetings; (Held) July 15, 2010 / September 9, 2010 / October 15, 2010 / November 10, 2010 / December 8, 2010 / January 20, 2011 / January 25, 2011 / February 9, 2011 (Planned) March 24, 2011 / March 30, 2011 / April 4, 2011.

Tony Young:

- Investigate the possibility of establishing a "Land Bank." What type of model – public/private or nonprofit?
 - Land Banking is included in the Housing Commission's list of possible programs. However, the program for which the Housing Commission would purchase land for resale to developers for rental or for-sale housing has not been implemented, to-date. In addition, the Housing Commission formed a 2011 Affordable Housing Task Force to review the current and past report recommendations and best practices/model programs and to develop a menu of recommendations for policy changes, incentives, other revenue resources for consideration by the Land Use & Housing Committee and the City Council. Land Banking is one of many recommendations by the Task Force. The Housing Commission is reviewing the

recommendations and studying the feasibility of implementing either public/private or nonprofit land bank program for the City of San Diego.

- Research Redevelopment Issues
 - There is no impact of lifting the CCDC cap on District 4.
 - Redevelopment funding as a potential funding source for the production of affordable housing. The HTF received Redevelopment funds in FY93 and FY95. The funds were discontinued after FY95.
 - The nexus between workforce housing in District 4 and where those households actually work, i.e., Downtown and other employment centers in the City/County. Data specific to District 4 not found. Census data for five census tracts in various parts of District 4 showed an average mean commute time of 28 minutes, which is above the San Diego average of 22.5 minutes. SANDAG 2006 data states that the Central part of the region (south of I-8 to Chula Vista, and east of La Mesa and Lemon Grove, basically covering districts 2, 3, 4, the northern part of 8, and National City) had a decline in large employers (over 500 employees at one site). North County had 58% of the large employers. East County had a gain, mainly due to the casinos. In 2006, the Central area had no industrial sites or parks planned or under construction, and had a small percentage of the region's industrial space. As of this time, the Housing Commission has not received any additional data from SANDAG in this regards.

Kevin Faulconer:

- What is the percentage of affordable housing developed in Districts 3, 4, 8, and Downtown?
 - Completed rental and for sale units:
 - 23% Downtown
 - 13.7 % in #3
 - 12.6% in #4
 - 19.1% in #8.
- How many affordable housing units were produced within the last 4-5 years?
 - Since 2006, 4,062 rental units and 160 for-sale units were produced.

Sherri Lightner:

- What is in the pipeline in affordable housing by district?
 - Please see attached list, Attachment 1.
- How many developments in District 1 paid in-lieu fees and/or received a waiver?
 - In-lieu fees pertain to the Inclusionary housing requirement for residential development, not to HTF fees on commercial development. According to data provided by Development Services, thirty-three rental projects and 15 condo conversion projects in District 1 paid in lieu fees. One of the rental projects and two of the condo projects also provided affordable units.

Projects Receiving Permanent Financing from Linkage Fee Revenue								
Completed Projects and Financing Commitments								
	Council District	Project Name	Street Number	Total units	Re-stricted units	Regional Status	Linkage Investment	Total other leverage
1	1	Canyon Rim Apts	10931	504	353	Completed	\$600,000	\$47,394,497
2	1	Torrey del Mar	13875	112	112	Completed	\$110,000	\$18,402,061
		TOTAL		616	465			
3	2	Mason Hotel	1345	17	16	Pipeline	\$68,859	\$3,687,733
4	2	Paseo Glenn Apts	1851-65	13	13	Completed	\$39,900	\$1,542,881
5	2	Potiker Fam Seniors Residence	525	200	198	Completed	\$790,000	\$20,476,459
6	2	Sunburst Apts	1640	24	23	Completed	437,373	\$4,059,307
7	2	Take Wing*	3255	33	33	Completed	260,242	\$1,097,872
8	2	Veterans Village Phase 1	4141	112	112	Completed	757,000	\$5,045,145
9	2	Veterans Village Phase 2	4141	28	28	Completed	780,000	\$8,324,526
10	2	Veterans Village Phase 3	4141	16	16	Completed	300,000	\$7,297,683
11	2	Villa Harvey Mandel	72	90	89	Completed	378,021	\$11,944,475
		TOTAL		533	528			
12	3	34th Street Apts (near completion)	4637	34	33	Completed	80,000	\$6,663,093
13	3	35th Street Transitional Housing	4760	8	7	Completed	10,000	\$1,529,887
14	3	Alabama Manor	3822	67	66	Completed	100,000	\$10,533,818
15	3	Arbor Crest	3783	83	82	Pipeline	500,000	\$32,490,300
16	3	Arbor Terrace	3693	71	69	Completed	100,000	\$29,467,323
17	3	City View Apts fka Georgia St Apts	4105	31	30	Pipeline	26,638	\$10,838,712
18	3	Cornerstone Apts	3604	7	7	Completed	59,500	\$228,000
19	3	Golden Villas Duplex	1801	2	2	Completed	26,400	\$116,449
20	3	Harmony Homes Apts*	4251	12	12	Completed	6,236	\$239,740
21	3	Hawthorn II Apts*	3036	19	18	Completed	31,611	\$767,839
22	3	Hollywood Palms	4366	94	94	Completed	900,500	\$13,844,182
23	3	Mercy Gardens	4077	23	22	Completed	935,518	\$2,917,095
24	3	North Park Inn	2621	18	17	Completed	650,000	\$3,450,000
25	3	Park Place	4033	33	32	Completed	91,042	\$892,010
26	3	Parkway Manor	3766	20	19	Completed	88,970	\$627,720
27	3	Renaissance at North Park Srs	4330	96	94	Completed	690,606	\$20,476,459
28	3	Stepping Stone Central Recov	3757	28	28	Completed	95,333	\$2,573,152
29	3	Talmadge Senior Village	5252	91	90	Completed	10,000	\$19,685,244
30	3	The Cove	5288	20	19	Completed	47,000	\$3,445,931
31	3	Village View	3820	30	29	Completed	328,855	\$1,031,321
32	3	Westview Home Apts	3536	6	6	Completed	57,448	\$231,000
33	3	Wilson Avenue Apts	3845	8	8	Completed	131,850	\$125,150
		TOTAL		801	784			
34	4	Bella Vista	4742	170	170	Completed	50,000	\$16,880,000
35	4	Delta Place	4420	43	42	Completed	1,250,000	\$905,943
36	4	Golden Age Garden Apts	740	76	75	Completed-r	162,000	\$10,406,293
37	4	Jean C. McKinney Manor	5641	50	49	Completed	10,000	\$7,263,033
38	4	Las Serenas	4352	106	105	Completed	50,000	\$6,050,000
39	4	Lazzell Residence	5625	60	59	Completed	112,577	\$3,763,000
40	4	Lincoln Park Co-op	4910	15	15	Completed	300,000	\$601,056
41	4	Mountain View	3992 A&B	4	4	Completed	80,183	\$127,345
42	4	National Avenue Apts	4058	6	6	Completed	187,715	\$189,198
43	4	Parkside Apts	4010	40	39	Completed	468,838	\$3,073,000
44	4	Mayberry Townhomes fka Summit Cre	4328	70	70	Completed	20,000	\$8,299,327
45	4	Welcome Home	5348	8	8	Completed	249,800	\$218,600
		TOTAL		648	642			
46	6	Stratton Apts	5765	312	218	Completed	600,000	\$29,948,580
		TOTAL		312	218			

Projects Receiving Permanent Financing from Linkage Fee Revenue
Completed Projects and Financing Commitments

	Council District	Project Name	Street Number	Total units	Re-stricted units	Regional Status	Linkage Investment	Total other leverage
47	7	51st Street	4242	24	23	Completed	270,000	\$2,899,327
48	7	Ariel House	4281	1	1	Completed	175,860	\$12,000
49	7	Bandar Salaam	3810	68	67	Completed	634,925	\$6,232,686
50	7	Hillside Garden Apts	5802	380	76	Completed	10,000	\$43,191,519
51	7	Reese Village	4809	19	18	Completed	408,729	\$2,914,343
52	7	Villa Alta aka Villa Rica	4227	70	69	Completed	288,569	\$7,261,700
53	7	Winona Apts	3845	14	14	Completed	45,438	\$341,315
		TOTAL		576	268			
54	8	40th Street Apts	1440	16	16	Completed	96,000	\$1,020,000
55	8	Beyer Courtyard Apts	3412	60	59	Completed	2,000	\$14,462,534
56	8	COMM 22 Mixed Use- Seniors	2101	70	68	Pipeline	200,000	\$24,235,369
57	8	Coronado Terrace	1183	312	310	Completed	328,715	\$29,223,906
58	8	Del Sol Apts	3606	91	90	Completed	26,000	\$21,335,410
59	8	Grant Heights Park Apts	2651-2663	28	27	Completed	17,279	\$2,928,654
60	8	La Posada Apts*	135	25	24	Completed	20,992	\$1,864,708
61	8	Mesa Fam Villas	2065	42	41	Completed	47,000	\$7,292,467
62	8	Tesoro Grove	1150	106	104	Completed	1,490,000	\$11,731,029
63	8	Vista Terrace Hills	1606	262	260	Completed	200,000	\$29,299,077
64	8	Vista Verde Apts	351	40	39	Completed	200,315	\$5,472,401
		TOTAL		1052	1038		\$17,491,837	\$590,890,884
65		Project for victims of domestic violence		14	14		\$1,305,974	\$3,957,643
		TOTAL COMPLETED		4,303	3,727			
		TOTAL PIPELINE		235	216			
		TOTAL UNITS / LEVERAGE		4,552	3,957		\$18,797,811	\$594,848,527

*Some projects also received predevelopment grants that were not part of the permanent financing.

"Revenue"									
HOUSING TRUST FUND REVENUE TO DATE									
GL&No.:	TOT/035	Link/038	Redev/095	CDBG/117	Fay/114	("HRTF") Rehab/030	LHTF Match 200	Total	
FY 91/92	3,070,884	6,211,014	-					9,281,898	
FY 93	-	1,899,406	3,238,765					5,138,171	
FY 94	-	1,432,139	-					1,432,139	
FY95		2,241,590	3,275,000					5,516,590	
FY96		2,885,181						2,885,181	
New Rate:									
FY97		1,859,146						1,859,146	
FY98	115,000	3,282,811		254,243	2,275,468			5,927,522	
FY99		5,397,592		239,325				5,636,917	
FY00		4,953,463		152,321				5,105,784	
FY01		3,382,211		192,000				3,574,211	
FY02		2,424,763		430,613				2,855,376	
FY03		1,645,166		351,537				1,996,703	
FY04		1,448,329		388,269				1,836,598	
FY05		2,261,653						2,261,653	
FY06		3,519,563					749,581	4,269,144	
FY07		2,949,230					661,928	3,611,158	
FY08		2,388,933					588,491	2,977,424	
FY09		677,183						677,183	
FY10		333,213						333,213	
FY11		378,488							
Total Revenue	3,185,884	51,571,073	6,513,765	2,008,308	2,275,468	-	2,000,000	67,176,010	
Linkage is the current source of HTF revenue.									
CDBG: Repayments of some loans made with CDBG funds was permitted for Rehab use.									
Fay Ave: One-time funding from sale of property.									
HRTF: No outside source of initial funds; fund consists of Rehab loan repayments.									
Fund 200: A \$2 million matching grant from the State. (Was used for devel of 3 projects.)									

Comment to the 2011 Affordable Housing Task Force

Received: February 7, 2011

From: Catherine Rodman

Dear Mr. Nash,

Thank you for forwarding the January 25, 2011 Minutes and soliciting comments about regulatory issues, funding sources and land availability for affordable housing development in the City of San Diego. Given the freeze on housing funds from State HCD (see attached), and the proposed restructuring of redevelopment (see attached), I suggest the following:

1. Focus on creating new affordable housing via regulations, including regulations on appropriate land which is available for development or redevelopment, including affordable housing overlay zones, inclusionary housing which reflects the RHNA allocations, mandatory density bonuses and accessory units, etc;

2. Identify new or expand proposed funding sources, including the following:

- (a) Advocate for the allocation of the Rental Unit Business Tax, formerly \$6.8 million, now \$5.4 million annually, (the reduction is due to the suspension of excessive and illegal administrative fees) See pages 15 and 20 (numbered 125 and 140) at http://www.sandiego.gov/fm/proposed/pdf/2011/vol_1/09_financial_summary_and_schedules.pdf)

for rental housing code enforcement staff, equipment and repairs.

- (b) Expand the October 2010 Jobs Housing Nexus Study to include a multiplier to account for the housing impact of indirect and induced jobs. See for example, <http://www.sdhc.net/Special-Housing-Programs/Linkage-Task-Force/> at pages 8-9, 43, and 84-85

AHA is advocating for retention of the belatedly established affordable housing revenues and obligations under Community Redevelopment Law, and hope that they will continue in the future. See attached. At the very least, the debts owed to local Housing Funds must be repaid and the agencies' replacement and inclusionary obligations fulfilled before agencies are phased out. We urge the SDHC to help assess the San Diego Redevelopment Agency's, including CCDC's and SEDC's unmet obligations and the funds needed to meet them so that the Low and Moderate Income Housing Fund continues to be a significant source or revenue for affordable housing development until these obligations are met in full.

If you have any question, please feel free to contact me.

Sincerely,

Catherine A. Rodman, Esq.

Affordable Housing Advocates

4305 University Avenue, Suite 110

San Diego, CA 92105

(619) 233-8441, ext. 11

(619) 233-8474 direct line

Fax: (619) 233-4828

www.affordablehousingadvocates.org

Asian Business Association
Associated General Contractors
BIOCOM
Building Industry Association of San Diego County
BOMA San Diego
California Restaurant Association
Engineering & General Contractors Association of San Diego
Hospital Association of San Diego - Imperial Counties
NAIOP San Diego
National Black Contractors Association
Commercial Realtors Association of San Diego
San Diego Association of REALTORS®
San Diego Business Leadership Alliance
San Diego County Apartment Association
San Diego County Hotel Motel Association
San Diego County Taxpayers Association
San Diego Regional Economic Development Corporation
San Diego Lodging Industry Association
San Diego North Chamber of Commerce
San Diego Regional Chamber of Commerce
TechAmerica San Diego

March 18, 2011

Mr. Rick Gentry
President & CEO
San Diego Housing Commission
1122 Broadway, Suite 300
San Diego, CA 92101

Submitted Electronically

RE: Linkage Fee Recommendation - JOBS Coalition Comments

Dear Mr. Gentry:

On behalf of the organizations listed above, I respectfully submit the following comments regarding the linkage fee recommendations made by your office. I should note that our organizations have been and continue to be opposed to increasing this fee as it is tantamount to a job's tax. We have reviewed your recommendation to increase the fee and our organizations and the thousands of businesses they represent continue to oppose this and any effort to further harm the San Diego economy.

Public Review

As you know, our organizations have been active participants in the discussions on linkage fees and have a strong interest in the adequate public review of any recommendation resulting from the analysis that was completed by the two vendors to the San Diego Housing Commission. First, we are surprised that an issue of this magnitude would not warrant a hearing and recommendation by the full Housing Commission. Additionally, we were disappointed that we had to ask for these recommendations rather than having them distributed to the stakeholders who have been participating with the Housing Commission on this important matter. We believe this does not support an open and transparent process on this very important issue of linkage fees, fees that have the potential to adversely impact new and growing businesses in the City San Diego in a time of lingering economic malaise and uncertainty.

We believe the Housing Commission should have an opportunity in an open, public hearing to review the staff recommendation and make their formal position known to the San Diego City Council prior to their hearing this matter.

Linkage Fee Increase

Our members have a direct interest in the city's present and future economic vitality and, as such, we disagree with your recommendation to increase the fee at this time. Your staff has argued at community meetings that the recommendation is to not increase the fee, choosing to spin the delayed implementation of the fee increase as proof. We disagree. A delayed implementation in two years is still an action to increase the fee and will have the effect of immediate implementation as it is viewed by the lending community in financing projects. Our members are adamantly opposed to any recommendation that would increase the fee now or in the future. It is our belief that even a delayed effective date for increasing the fee would add risk and uncertainty to the financing of new, expanded, or renovated commercial and industrial uses in the City of San Diego, a risk the city can ill afford in a depressed economy with record unemployment.

Indexing and Auto-Taxing Proposal

Additionally, our members are opposed to your recommendation that the linkage fee be subject to automatic increase based on some type of economic or cost index. The purpose of review and consent of the Council is to not only provide for a balanced understanding of the current economic environment and how the fee might fit into that situation, it also allows for adequate public input for any potential increase in this fee by our elected representatives.

Best Practices Recommendations

Our members are disappointed in the lack of serious attention being given to alternative methods of funding affordable housing and a lack of inclusion of these issues, and the list developed with the stakeholder group in your recommendations to the City Council.

JOBS Coalition Recommendations

The JOBS Coalition recommends that no increase in the fee be adopted, whether it's delayed or implemented immediately. Further, we do not believe that the fee should be increased automatically by index without review and consent of the City Council.

We believe a better approach is to take a serious look at other more equitable, broad-based funding sources, consistent with the report provided to the council when the affordable housing trust fund was created in 1990. We also believe that the City's approach to providing affordable housing should be examined more carefully and perhaps retooled. Perhaps it is time for the various government agencies involved in the funding of affordable housing, including Housing Commissions, HCD, and HUD, to take a detailed look at how the needs are not being met and perhaps how all the dollars involved could be better spent on meeting the needs of low and moderate income families, particularly in a way that focuses on maximizing the number of families helped.

Municipal Code

It is our understanding that the audit report and the lack of adherence to the municipal code requirement for annual review and adjustment of the linkage fee is a driving factor behind this issue being brought forward, despite our depressed economic conditions. However, the only alternative being offered is for an increase in the fee and a change to the municipal code to allow for the auto-increase of the fee using some form of an index. What's not being discussed is the alternative to simply amend the municipal code and remove this annual requirement. We believe this option should be given serious consideration by the Housing Commission and the City Council, considering the state of our economy and the City's broad goal of remaining competitive with other cities and regions for new employment centers and job growth.

Conclusion

In closing, we strongly urge your consideration of our perspective and respectfully request that you change your recommendation to reflect this perspective. We believe that by establishing this good faith effort on the part of the Housing Commission, we can then work together with the advocate community to develop broad-based, real

world, practical solutions to help provide affordable housing that does not conflict with the economic and jobs creation goals of the City of San Diego. It is clear that the public does not support government efforts that are contrary to job creation and improving the economy to end this persistent and historic recession. Our members and our employees share those sentiments. Thank you for your consideration.

Very truly yours,

Craig Benedetto
Legislative Advocate
BOMA San Diego & NAIOP San Diego

CC: Mayor Jerry Sanders
Council President Tony Young
Council Member Sherri Lightner
Council Member Kevin Faulconer
Council Member Todd Gloria
Council Member Carl DeMaio
Council Member Lorie Zapf
Council Member Marti Emerald
Council Member David Alvarez

TECHNICAL ADVISORY COMMITTEE to
LAND USE AND HOUSING COMMITTEE
1222 First Avenue
San Diego, CA 92101

March 18, 2011

Mr. Rick Gentry
San Diego Housing Commission
1122 Broadway, Suite 300
San Diego, CA 92101

RE: Technical Advisory Committee Recommendation - Affordable Housing Linkage Fee

Dear Mr. Gentry:

We appreciated the presentation John Nash made to our committee on 2/9/11, and his willingness to discuss our concerns. At our 3/9/11 meeting, the TAC approved the following motion:

1. TAC has reviewed the Linkage Fee Nexus Study and noted that the recommendations of the consultant and of the Housing Commission staff concerning the amount of the fee increase are not derived from the analysis presented.
2. TAC opposes the increase in the fee for several reasons, not the least of which is the lack of attention paid to the Affordable Housing Best Practices Study that was prepared concurrent with the Linkage Fee Nexus Study.
3. TAC opposes the proposal to phase in a fee increase in two years because it is still a fee increase, and would happen without a specific, timely action by the City Council in 2013.
4. TAC opposes the index mechanism to automatically increase the fee because it would not allow for a public debate on the appropriateness of changing the fee.
5. TAC supports a policy and regulatory approach that includes broad-based funding sources to mitigate against the volatility of fees generated solely from new construction.

Thank you for your consideration of our position.

Very truly yours,

A handwritten signature in cursive script that reads "Kathleen Riser".

Kathleen Riser
Chair

San Diego Housing Commission's Recommendations
for the Housing Impact Fee (Linkage Fees)

To address the nexus between non residential development, job creation, and the need for affordable housing, while at the same time acknowledging the severity of the current economic situation in the region, the Housing Commission is recommending the following:

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 may consider revisions to the current Housing Impact Fee Ordinance. Depending on City Council action, the recommendations included in this report will be modified.

2. 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 Fee Levels (\$/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

3. Beginning in July 2018, adjust the fee based on the most recently published Building Cost Index (BCI).
4. Utilize the same process in place for Inclusionary Housing fee adjustments. That is, Housing Commission staff will adjust the fee according to the recommendations 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.

PUBLIC NOTICE

To be published February 24, 2011 and March 9, 2011

The San Diego Housing Commission is seeking public comment on recommendations that will be presented to the Land Use & Housing Committee (LU&H) of the City of San Diego on Wednesday, March 30, 2011 and to the City Council at a subsequent meeting.

Background

At the November 2010 LU&H meeting, the Housing Commission staff was directed to analyze the Jobs Housing Nexus Study prepared 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 November 2010 LU&H meeting, the need for broader public review and input was discussed and the SDHC staff was instructed to provide an opportunity for the general public to review the proposed recommendations and to provide written comments that will be included in the March 2011 report to LU&H.

The City of San Diego Housing Impact Fee was established in 1990 to address the affordable housing demand created by non-residential development. In 1996, during an economic turndown in San Diego, the City Council reduced the Housing Impact Fee by fifty percent (50%) and since that time, the fee has remained at those levels.

Recommendations & Alternatives for Review/Comment

To address the nexus between non residential development, job creation, and the need for affordable housing, while at the same time acknowledging the severity of the current economic situation in the region, the Housing Commission is recommending the following:

1. Maintain current fees for two years (July 1, 2011 through June 30, 2013)
2. Phase in fee increase using approved index UNLESS economy is not in recovery phase.
 - a. Alternative: Trigger increase based on regional employment trends, e.g., level of 2007 employment before any increase. (Data source: EDD)
3. Future fee adjustments (increases/decreases) to be based on the Building Cost Index as published by Engineering News Record (ENR). Linked closely to commercial construction costs, it is the index currently in place for Housing Impact Fee adjustments. Further that the index be automatically applied, subject to review by City Council on an annual basis (as is done for the Inclusionary In Lieu Fee).
 - a. Alternative: Use the Housing affordability index for fee adjustments. This alternative is currently used for the Inclusionary In Lieu Fee and is tied to housing

affordability (based on what median household can afford vs. median housing cost).

4. Revise ordinance to fund only rental housing development with Housing Impact Fee, until additional revenue sources are identified and approved. At that point, revert to current ordinance language that includes funding of transitional housing, etc.

Please submit all comments no later than March 18, 2011 to: John Nash, Director of Policy, San Diego Housing Commission; 1122 Broadway, Suite 300, San Diego California 92101 OR email to: john@sdhc.org.

ALL WRITTEN COMMENTS RECEIVED WILL BE ACKNOWLEDGED AND INCLUDED IN REPORT.



POLICY BRIEF

Increasing the City of San Diego's Housing Impact Fee (Linkage Fee)

POSITION

The Chamber opposes any increase in the Linkage Fee and proposals to automatically adjust the fee. The Chamber holds the position that the Linkage Fee is a de facto tax on job creation and suppresses development and business expansion. The Chamber advocates that more reasonable alternatives be found to fund affordable housing.

BACKGROUND

In 1989, the San Diego Housing Commission commissioned a study that analyzed the "link" between kinds of workers in various types of development and the number of households that meet the criteria for lower income categories. The Commission recommended a fee based on development type to raise revenues for San Diego's Housing Trust Fund (HTF).

The City Council agreed with the study's conclusions that the creation of new jobs – as demonstrated by non-residential development - increases the demand for affordable housing. In 1992, the Council adopted a Housing Impact or "Linkage" fee on new construction and expansion of non-residential development. In addition, projects that require interior remodeling or that change the structure's use is subject to the Linkage Fee, which is paid when applying for a building permit. The ordinance includes an annual review at the discretion of the Council.

Depending on the type of development, fees originally ranged from \$0.54 to \$2.12 per square foot. In 1996, the Land Use and Housing (LU&H) Committee recommended the fee be reduced by half immediately to stimulate the economy and encourage immediate development.

The current linkage fee schedule is:

- \$1.06 per square foot for office and comparable uses.
- 80 cents per square foot for research and development space.
- 64 cents per square foot for hotels, retail and manufacturing.
- 27 cents per square foot for warehouses.

A 2009 City Auditor's report concluded that the City was in violation of its ordinance because of its failure to annually update the fee. The City Auditor's Office described three alternatives: increase the fee, create an automatic annual adjustment, or remove the annual update requirement.

Councilman Gloria is leading the current effort to increase the fee and/or have the fee automatically adjust annually.

The San Diego Housing Commission released the following recommendations concerning the City's Linkage Fee Ordinance:

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

Opponents

Asian Business Association of San Diego, BIOCUM, Business Office Managers Association, California Restaurant Association, Building Industry Association of San Diego, Hospital Association of Imperial and San Diego Counties, National Association of Industrial & Office Properties, North San Diego Chamber of Commerce, San Diego Association of Realtors, San Diego Downtown Partnership, San Diego County Taxpayers Association, San Diego County Hotel-Motel Association, San Diego Lodging Association, **San Diego Regional Chamber of Commerce**, San Diego Regional Economic Development Corporation, Westfield, Inc.

Proponents

Councilman Todd Gloria, Councilwoman Marti Emerald, San Diego Housing Federation, San Diego Organizing Project, Wakeland Housing

Revised - February 24, 2011

City of San Diego Housing Impact Fee Increase *December 2010*

Board Action:

OPPOSE Increase in Linkage Fee

Rationale:

The Housing Impact Fee (linkage fee) is an unstable source of funding for construction of affordable housing because it is based on volatile conditions relating to development activities and economic climate. Even with the consideration of delaying implementation of the increase until the economy improves, the fee is not a steady revenue source for affordable housing. If affordable housing is truly a priority of the City Council, a stable source of revenue to support affordable housing projects should be identified. Once a final decision has been made, the City must update the Municipal Code to reflect the current status of the fee and include any provisions that are adopted, as well implement the remaining audit recommendations that have been provided in an effort to produce efficiencies.

Background:

The City of San Diego charges a fee to non-residential building development on a per square foot basis. This fee, called the Housing Impact Fee or linkage fee, is the primary source of revenue for the Housing Trust Fund to finance the construction of affordable housing. It was initially established in 1989 through a nexus study that examined the relationship between new commercial building or workplaces and new workers in the city. The linkage fee levels were determined by quantifying the demand for housing new workers in low income households in units per square foot and the cost of providing affordable housing. Table 1 shows the initial linkage fee schedule in 1990. In response to a recession in 1996, the linkage fee was reduced by 50%, and the fee has not been changed since. Table 1 also includes the current linkage fee level and Keyser Marston Associates (KMA) recommended linkage fee level range.

Table 1: Linkage Fee Schedule			
Type of Building Use	Linkage Fee in 1990 (Fee/Sq Ft)	Current Linkage Fee since 1996 ¹ (Fee/Sq Ft)	Recommended Linkage Fee Range (Fee/Sq Ft)
Office	\$2.12	\$1.06	\$1.90~\$3.80
Hotel	\$1.28	\$0.64	\$1.60~\$3.20
Research and Development	\$1.60	\$0.80	R&D uses would be defined as Manufacturing uses.
Retail	\$1.28	\$0.64	\$1.70~\$3.40
Manufacturing	1.28	\$0.64	\$1.20~\$2.40
Warehouse	0.54	\$0.27	\$0.80~\$1.50

Commissioned Study Results:

The City of San Diego's Land Use and Housing (LU&H) Committee has directed the San Diego Housing Commission (SDHC) to review the linkage fee and provide recommendations for changes to its affordable housing policies and funding sources. SDHC has taken the Keyser

¹ City of San Diego Municipal Code Chapter 9 Article 8 Division 6.

Marston Associates' (KMA) "Jobs Housing Nexus Study" into consideration in providing the following recommendations for updating the linkage fee²:

- Apply an Annual Index
- Maintain Current Fees Until the Economy Improves
- Range of Options for Increased Fees Once Economy Improves

The purpose of the nexus analysis was to:

"Document the linkages among construction of new workplace buildings (such as office, retail, hotel, etc.), the employees that work in them, and the demand for affordable housing."

The analysis further states:

"The analysis yields a connection between new construction of the types of buildings in which there are workers and the need for additional affordable housing, a connection that is quantified both in terms of number of units and the amount of subsidy assistance needed to make the units affordable."

In *Commercial Builders of Northern California v. City of Sacramento*, the commercial builders of Sacramento sued the City following the City's adoption of a housing linkage fee. Commercial Builders challenged the ordinance, arguing that it constituted a taking requiring just compensation under the Fifth and Fourteenth Amendments to the United States Constitution³. Both the U.S. District Court and the Ninth Circuit Court of Appeals upheld the City of Sacramento and rejected the builders' petition on the basis the City had shown the nexus required between nonresidential development and the demand for low-income housing and that there was a rational relationship between the exaction and the cost of the low-rent housing projects. The U.S. Supreme Court denied a petition to hear the case.

SDHC has also taken study results from Bay Area Economics' "Affordable Housing Best Practices and Funding Study" to develop a set of recommendations for alternative sources of funding and changes to its affordable housing policies. The Bay Area Economics' analysis provided the following recommendations⁴:

- 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 Community Development Block Grants (CDBG) Funding Dedicated to Affordable Housing
- Increase the Percentage of Redevelopment Tax Increment Funding Dedicated to Housing

²Prepared by Keyser Marston Associates, Inc. "Jobs Housing Nexus Study." October 2010.

³Timothy M. Tesluck, *Commercial Builders of Northern California v. City of Sacramento: Commerce Creates Poverty*, 42 Case W. Res. 1339.

⁴Prepared by Bay Area Economics. "Affordable Housing Best Practices and Funding Study." November 1, 2010.

- 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

Currently, the SDHC is still discussing the linkage fee issue with public stakeholders, and has stated is open to dialogue for finding alternative solutions to fund affordable housing. SDHC is planning to give its recommendation regarding the linkage fee to the LU&H Committee during the first quarter of 2011, following additional stakeholder meetings and another potential presentation to the LU&H Committee.

Policy Discussion:

Linkage Fee Adjustment:

As the primary revenue source for the Housing Trust Fund, the linkage fee revenue finances affordable housing projects such as loan assistance for restoring deteriorated housing units, financial assistance to first time homeowners, and housing for the homeless (see Table 2 and 3). The San Diego Housing Commission is researching ways to update and re-adjust the linkage fee rate. The recommendations SDHC suggested may lead to an increase in the linkage fee rate and establish an automatic adjustment to the rate based on economic conditions. The fee level would adjust according to suggested indexes that are related to the subject, such as: Building Cost Index, Construction Cost Index, Consumer Index, Housing Affordability Index, or Bureau of Labor Statistics Construction Index. Since the linkage fee rate would rely on the economic conditions, this would avoid the cost of annual discretionary action by the City Council. However, unpredictable economic conditions may exacerbate the linkage fee as an unstable source of revenue for affordable housing.

Impact from Increasing Linkage Fee:

Increasing the linkage fee can have both positive and negative economic impacts. With an increased linkage fee, there would be more resources available to help provide affordable housing for potential employees coming to work in San Diego. However, the cost of development would also increase which may result in a disincentive for developers to conduct business in San Diego.

Impact of Proposition 26

In November 2010, voters in California passed Proposition 26, otherwise known as the “Stop Hidden Taxes” ballot measure. Proposition 26 amended the California Constitution by expanding the definition of a state or local tax to include many payments currently considered to be fees or charges.⁵ Proposition 26 requires taxes, under the new definition, to receive a two-thirds vote of the voting public in order to take effect. A tax is defined as any levy, charge or exaction imposed on the payor, and whose revenue is used to benefit the public as a whole, not

⁵ Legislative Analyst Office analysis of Proposition 26. July 15, 2010.

the individual payor. The measure did allow for various exceptions to this requirement, including “a charge imposed as a condition of property development”.

Local governments commonly charge various types of development impact fees, which are charges imposed as a condition of property development. A development impact fee is a monetary exaction other than a tax or special assessment that is charged by a local governmental agency to an applicant in connection with approval of a development project for the purpose of defraying all or a portion of the cost of public facilities related to the development project.⁶ These fees are intended to mitigate the adverse effects that can be attributed to increased development such as increased traffic congestion, increased burden on local services, or decreased air and water quality. If a development impact fee does not relate to the impact created by development or exceeds the reasonable cost of providing the public service, then the fee may be declared a special tax and must then be subject to a two-thirds voter approval.⁷

It is still unclear as to whether the language under Proposition 26 would define the City’s linkage fee as a tax and require any increase to be put before voters. This ambiguity could potentially lead to legal action should the City move forward with an increase to the fee.

Timing of the Linkage Fee Adjustment:

Due to the current economic downturn, there is a consensus among the proponents and the opposition of linkage fee that an adjustment or an increase to the linkage fee should not occur until there is evidence of economic recovery. To define the threshold in which the linkage fee adjustment would occur, KMA recommended several indicators: Number of

Activity/Project Group	Activity/Project	Amount
Rental Housing Finance	Acquisition & Rehab ⁹ – HDP	\$157,142
	Acquisition & Rehab - 34th Street / Townspeople	\$2,040,000*
	Development - Pacific Hwy / Veteran's Village	\$301,000.00*
	Development - Commercial & 22nd Street	\$4,200,000*
Homeownership	Down Payment/Closing Costs Assistance	\$198,269*
	First-Time Homebuyer Assistance	\$1,361,252*
Special Purpose Housing	Acquisition & Rehab - University Ave / Pathfinders	\$650,000
	Transitional Housing ¹⁰	\$9,685
Total		\$3,157,827

Non-Residential Building Permits or Valuation, Employment, and Vacancy Rates. KMA also suggested a fixed schedule adjustment, where the fee is increased or adjusted over a period of years.

⁶ Gov. Code § 66000(b).

⁷ Cal. Const., Art. XIII A, § 4.

⁸ San Diego Housing Commission Fiscal Year 2010 Budget. This is a combined dollar amount of linkage fee and other funds, such as HOME, inclusionary fee, and CCDC Homeownership.

⁹ Providing below market interest rate deferred loans to improve deteriorated or functionally obsolete house units. Units need to be owner-occupied, single family to four-plex, or mobile home to be considered for the program.

¹⁰ Housing homeless people for a short period of time until they move into a permanent housing (2 weeks to 24 months). This group of people includes: mentally ill, serial inebriates, veterans, victims of domestic violence, and youth.

Table 3: Linkage Fee Revenue¹¹

Fiscal Year	Actual Collected	% Change (Actual Collected)	Fee Revenue Collected under Suggested Adjustment	% Change (Fee Rev. Collected under Suggested Adj.)
FY 1992	\$6,211,000	-	\$6,211,000	-
FY 1993	\$1,899,000	-69.43%	\$1,933,000	-68.88%
FY 1994	\$1,432,000	-24.59%	\$1,502,000	-22.30%
FY 1995	\$2,242,000	56.56%	\$2,485,000	65.45%
FY 1996	\$2,885,000	28.68%	\$3,319,000	33.56%
FY 1997	\$1,859,000	-35.56%	\$4,277,000	28.86%
FY 1998	\$3,283,000	76.60%	\$7,773,000	81.74%
FY 1999	\$5,398,000	64.42%	\$13,419,000	72.64%
FY 2000	\$4,953,000	-8.24%	\$12,411,000	-7.51%
FY 2001	\$3,382,000	-31.72%	\$8,636,000	-30.42%
FY 2002	\$2,425,000	-28.30%	\$6,341,000	-26.57%
FY 2003	\$1,645,000	-32.16%	\$4,344,000	-31.49%
FY 2004	\$1,448,000	-11.98%	\$3,878,000	-10.73%
FY 2005	\$2,262,000	56.22%	\$6,172,000	59.15%
FY 2006	\$3,520,000	55.61%	\$10,364,000	67.92%
FY 2007	\$2,949,000	-16.22%	\$9,160,000	-11.62%
FY 2008	\$2,389,000	-18.99%	\$7,710,000	-15.83%
FY 2009	\$677,000	-71.66%	\$2,244,000	-70.89%
FY 2010	\$256,000	-62.19%	\$888,000	-60.43%

*Note: Under the Actual Collected, the linkage fee revenue collected starting after FY2008 has significantly decreased relative to previous fiscal years at an alarming rate.

*Note: There is a discrepancy between the fee's revenue and expenditure. This might be due to different accounting of the two different data sources and lack of precise expenditure dataset.

Since its inception, the linkage fee has generated \$51.15 million. Between the Housing Trust Fund and the Inclusionary Housing Fund, the SDHC has produced over 18,500 units of affordable housing opportunities for San Diego residents. These opportunities include¹²:

- 6,389 rental units
- 914 homebuyers
- 1,958 homes rehabilitated
- 9,032 transitional housing beds
- 139 pre development loans
- 9 Target of Opportunity grants
- 95 mobile home space purchases

Audit Recommendations

On July 29, 2009, City Auditor Eduardo Luna released a two-part Performance Audit of the San Diego Housing Commission. Part I of the audit focused primarily on the governance structure and policies and procedures of the SDHC, while Part II focused on the operations, collection of

¹¹ Data obtained from Keyser Marston Associates, Inc. "Jobs Housing Nexus Study." October 2010.

¹² Performance Audit of the San Diego Housing Commission – Part II. July 29, 2009. Office of the City Auditor. SHDC Response to City Auditor's Report.

fee revenues, and expenditures related to affordable housing. Part II of the audit made six (6) significant findings:

- Housing Trust Fund-related commercial linkage fees are outdated, substantially lower than comparable cities, and were not adjusted as required by the municipal code resulting in an estimated underfunding of \$2.79 million for fiscal years 2006 through 2008;
- SDHC receipt of direct payments from developers is inconsistent with the municipal code;
- The City and SDHC reported, but did not reconcile, different fee revenue amounts;
- SDHC Inclusionary Housing Fund policies and regulations are inadequate or poorly defined;
- The City's Inclusionary Affordable Housing Regulations need to be updated; and,
- City and SDHC reporting, monitoring, and disbursements of Affordable Housing Fund revenues are fragmented and disjointed.

In addition to these findings, the audit made 12 recommendations for implementation by the SDHC. Three of these recommendations dealt with updating the linkage fee and satisfying the policy of updating the fee. The audit also called upon the SDHC to update its policies relating to the collection of fee revenues. Other recommendations dealt with updating various internal controls for collection of revenues and updating policies and procedures for budgeting and reporting. SDHC has responded to all of the recommendations and all of the recommendations have been implemented.

Within the response to the audit findings, the SDHC estimated implementation of most the audit recommendations could be completed by end of the 2010 calendar year. Due to the delay in adjusting the linkage fee and amending various portions of the municipal code, SDHC has estimated full implementation will be complete prior to beginning of Fiscal Year 2012. Those recommendations not requiring the assistance of the City Attorney or City Council approval have been implemented.