



SAN DIEGO
HOUSING
COMMISSION

LAND USE & HOUSING REPORT

DATE ISSUED: November 9, 2011

REPORT NO: LUH11-010

ATTENTION: Chair and Members of the Land Use & Housing Committee
For the Agenda of November 16, 2011

SUBJECT: 2011 Best Practices Task Force Recommendations

COUNCIL DISTRICT: Citywide

REQUESTED ACTION:

Land Use & Housing Committee recommend the City Council adopt the recommendations contained in the Affordable Housing Master Plan, as further described in this report.

STAFF RECOMMENDATION:

Land Use & Housing Committee recommend for adoption by the City Council:

1. A three year Affordable Housing Master Plan (“Master Plan”), as further described in this report, that will create a broad-based sustainable revenue stream dedicated to affordable housing and implement regulatory strategies and tools that will streamline and incentivize the delivery of new affordable housing units;
2. Provide a procedure for follow-up on the Master Plan that includes tracking the progress of the Master Plan in the Housing Element Annual Report; ongoing quarterly or as needed meetings of the 2011 Affordable Housing Best Practices Task Force (“Task Force”) to continue discussions of new ideas and to adjust goals and targets when necessary.

SUMMARY:

The proposed three-year Master Plan, (January 2012 – December 31, 2014) provides a strategy for increasing affordable housing production within the City of San Diego. The Master Plan combines recommendations on policy and regulatory changes that were reported to the Land Use & Housing Committee (“LU&H”) on July 20, 2011 (LUH 11-008), as well as recommendations to create new affordable housing revenue sources that are based on a report presented to LU&H on October 26, 2011 (LUH 11-009).

The first part of the plan involves the implementation of concepts and changes to regulatory procedures that will support production of affordable housing. Improving the delivery system requires streamlining the development regulations to shorten approval timelines and provide more certainty in the approval process. Incentives are needed to engage more developers in the production of affordable housing.

The second part of the Master Plan includes an analysis of citywide affordable housing production, local revenues that are dedicated to affordable housing, and how much revenue is needed to have a significant impact on meeting future affordable housing needs. New revenue sources are presented that could be

dedicated to affordable housing and could supplement local revenue to provide a more broad based and sustainable revenue stream for affordable housing.

DISCUSSION

I. Affordable Housing Regulatory and Process Improvements:

A. Remove obstacles to land banking for affordable housing and adopt a City policy that requires:

1. City to conduct a comprehensive review of its land that is not being put to use and identify sites for use for affordable housing development, whether multifamily housing or single family housing;
2. City consider utilizing such sites for affordable housing rather than a public sale at market value; and
3. Transfer the identified sites to the Housing Commission for affordable housing purposes.

B. Simplify and expedite environmental review, including the use of program EIR's and use of other environmental data studies such as greenhouse gas emission reduction targets.

C. Support City efforts to revise Community Plans to achieve more certainty in the development review process as well as support for affordable housing with focus on the following areas:

1. Review on a case-by-case basis and include land use designations in each community that will help facilitate a ministerial review where appropriate in accordance with the specific Community Plan, and consistent with the City's General Plan;
2. Specify the allowable incentives and densities for affordable housing development in each Community Plan;
3. Institutionalize funding for Community Plan updates to help keep the plans current and on regular, timely update cycles.

D. Reduce parking standards for affordable housing. A 2011 Affordable Housing Parking Study on this topic will be presented at the November 16, 2011 LU&H meeting.

E. Work through the City's legislative program to introduce legislation to the state that will remove inconsistencies in the way the affordable housing rents are calculated between state redevelopment-financed affordable housing and the federal low-income housing tax credit program so that rent levels between the programs are consistent.

F. Support San Diego Association of Governments ("SANDAG") Policy 33 revisions to criteria for allocation of all local funds that are competitively awarded by SANDAG. The revisions will help the City of San Diego continue to receive its fair share of funds that support affordable housing efforts.

G. Make all fee deferrals for affordable housing permanent and find a way to reduce fees for affordable housing by offsetting reductions with other revenue sources.

H. Support the Affordable Housing Expedite Program that is being taken to City Council for approval by the Development Services Division.

II. New Revenue Sources for Affordable Housing

The current annual production of affordable housing citywide from all sources and methods is reflected in the City's Annual Housing Element Report. For the period January 1, 2010, through December 31, 2010, the combined annual building activity of very low-income units (50 percent area median income and below) and low-income units (80 percent area median income and below) for multifamily housing was 533 units; an additional 750 units of very low- and low-income housing was rehabilitated, preserved and acquired, for a total unit production of 1,283 for the year. Refer to Table A and Table A-2, from the 2010 Housing Element Annual Report shown in "Attachment 1" and "Attachment 2," respectively.

The Regional Housing Needs Assessment, or "RHNA," is a plan prepared by the San Diego Association of Governments that projects housing need across the region. The need is broken down by income category and is based on demographic considerations such as population growth, vacancy rates and household formulation rates. Housing need numbers are assigned to each city within SANDAG's jurisdiction. These numbers are then used in the cities' housing element. State law requires that a local jurisdiction's housing element identify adequate sites zoned appropriately to address their RHNA allocation.

San Diego's 2010 Housing Element Annual Report compares production in the various income categories against the RHNA affordable housing need over the immediate past six years. At current production rates the city has met 20 percent (2,092 of 10,645 units) of its very low-income housing needs and 15 percent (1,226 of 8,090 units) of its low-income housing needs citywide at year 6 of the 10-year period. Refer to Table B, shown in "Attachment 3."

The newly adopted 2010 – 2020 RHNA looks forward 11 years and projects a housing need of 38,680 units of very low- and low-income housing for the City of San Diego. The housing in these income categories is the same housing that is supported by Affordable Housing Fund revenue (households at 80 percent area median income and below). This housing need number has significantly increased over the prior reporting period. If this figure is expressed on a per year basis, a production rate of 3,516 units per year would be required over the next 11 years to meet the projected need. This is almost three times the current production rate of 1,283. With an estimated current rate of local subsidy per affordable unit at \$100,000, this would require \$351,600,000 per year in local revenue sources to meet this production number. (Often both the San Diego Housing Commission and Redevelopment Agency subsidize a project and the combined subsidy exceeds \$100,000 per unit; other times projects are funded solely by one agency or the other, with subsidies exceeding \$70,000 per unit. A \$100,000 subsidy per unit is an estimate for projects on a moving forward basis).

The average amount of Linkage revenue collected annually (during the peak years of 1999 – 2001 and not during an economic downturn) is \$4,577,755; the average amount of Inclusionary revenue collected annually since inception of the program in 2003 is \$6,534,130. These funds combined make up the Affordable Housing Fund and illustrate total average annual revenue of \$11,111,885. Average annual low and moderate income housing set-aside (20 percent tax increment) for City Redevelopment has reached \$35,755,666. All sources combined create a maximum local revenue source, if all conditions

are right, of \$46,867,551 dedicated to affordable housing annually. Using an estimated local subsidy per affordable unit of \$100,000, a total of 469 units can be created per year.

If the City were to identify revenue sources that could supplement the Affordable Housing Fund and double, triple or quadruple the amount of revenue collected annually, the Affordable Housing Fund revenue and production estimates would look as follows:

<u>Affordable Housing Fund</u> <u>Annual Revenue</u>	<u>Annual Production @</u> <u>\$100,000/unit</u>	<u>11-Year Production</u>
\$11,111,885	111	1,221
\$22,223,770	222	2,442
\$33,335,655	333	3,663
\$44,447,540	445	4,895

With present average annual revenue for the Affordable Housing Fund at \$11,111,885, doubling the fund to \$22,223,770 would require the identification of an additional \$11 million in revenue sources annually; to triple the fund would require another approximate \$22 million, and \$33,000,000 added to the present annual average revenue would quadruple the fund.

The attached revenue matrix, (Attachment 4), provides potential revenue sources with projected annual revenue estimates. The matrix is meant to provide a menu of options that can be selected from and vetted through, to determine which sources would best fill the dedicated annual affordable housing revenue number.

In the short run, non voter-approved revenue sources could be sought to add to the Affordable Housing Fund. These revenue sources have the shortest timeline for implementation as they are budgetary in nature. One source, Reallocation of TOT at \$13.6 million annually per 1 percent would effectively double the Affordable Housing Fund. To triple the fund, a selection of two to three new sources would need to be selected from the non voter-approved list. Selecting all of the non-voter approved revenue sources (with the exception of the CDBG repayments) would add approximately \$33 million and quadruple current revenue. The CDBG repayments source, if also selected, would add a shorter-term, additional revenue infusion of whatever dollars are determined to be available from the \$78 million repayment.

Revenue sources that require voter approval, such as the Infrastructure Bond, could add significant amounts of revenue over time. The Infrastructure Bond could be selected for implementation in combination with other non voter-approved revenue sources that are more immediate but possibly shorter term. Shorter term revenue sources could be phased out as the Infrastructure Bond is put in place and begins generating revenue sufficient to meet affordable housing goals.

The recommendations in this report provide a comprehensive plan for increasing affordable housing production in the City of San Diego. The regulatory and policy changes in combination with new revenue sources identified in this report will boost affordable housing production. New revenue dedicated to affordable housing attracts investment and can be further leveraged with other affordable

housing programs. The result is new economic activity as well as the creation and preservation of affordable housing stock.

The 2011 Affordable Housing Best Practices Task Force remains committed to seeing these recommendations through to implementation. The Task Force will serve as a working group and provide follow up as well as continue the discussions of new ideas with regard to these affordable housing issues.

FISCAL CONSIDERATIONS:

None with this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On July 20, 2011, the 2011 Affordable Housing Best Practices Task Force presented an informational report on specific topical areas of concern as requested by the LU&H Committee (Report LUH 11-008). On October 26, 2011, the Task Force returned to LU&H with a status report on revenue sources (Report LUH 110009).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The work of this Task Force arose out of a series of public stakeholder meetings conducted by the San Diego Housing Commission from December 8, 2010 through March 22, 2011, regarding proposed changes to the Housing Impact Fee.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The key stakeholders who would be impacted by the affordable housing policy and revenue recommendations contained in this report include but are not limited to all sectors of the housing industry, affordable housing developers and advocates, the business community related to real estate and housing as well as the San Diego Housing Commission, the City Redevelopment Agencies, City of San Diego and its citizens.

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,



Wendy G. DeWitt
Director of Policy

Approved by,



Richard C. Gentry
President and CEO

- Attachments:
- (1) Table A, Annual Building Activity Report
 - (2) Table A2, Annual Building Activity Report Summary – Units Rehabilitated, Preserved and Acquired
 - (3) Table B, Regional Housing Needs Allocation Progress
 - (4) Potential Revenue Sources

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.

ANNUAL ELEMENT PROGRESS REPORT
Housing Element Implementation
 (CCR Title 25 §6202)

Jurisdiction: City of San Diego
 Reporting Period: 1/1/2010 – 12/31/2010

Table A
 Annual Building Activity Report
 Very Low-, Low-, and Moderate-Income Units and Mixed-Income Multifamily Projects

1 Project Identifier (may be APN No., project name or address)	2 Unit Category	3 Tenure R=Renter O=Owner	4 Affordability by Household Incomes				5 Total Units Per Project	5a Est. # Infill Units*	6 Housing with Financial Assistance and/or Deed Restrictions		7 Deed Restricted Units	8 Housing without Financial Assistance or Deed Restrictions
			Very Low- Income	Low- Income	Moderate- Income	Above Moderate- Income			Assistance Programs for Each Development	See Instructions		
Ten Fifty B 1050 B Street		R	126	100	3	229	229		See Instructions		Note below the number of units determined to be affordable without financial or deed restrictions and attach an explanation how the jurisdiction determined the units were affordable. Refer to instructions.	
Parkside 515 13 th Street		R	13	63	1	77	77					
Mira Bella Apts 3455 Kearny Villa Rd		R			29	288	288			INC		
El Pedregal Apts 104 Averil Rd		R	32	12	1	45	45		Bonds, MHP, Tax Credits, RDA			
Courtyard Terraces 4321 52 nd St		R	87		1	88	88		Bonds, MHP			
(9) Total of Above Moderate from Table A3			358	175	0	1,239	1,239					
(10) Total by income units (Field 5) Table A/A3			358	175	29	1,504	1,966					
(11) Total Extremely Low-Income Units*												

*Note: These fields are voluntary

ANNUAL ELEMENT PROGRESS REPORT
Housing Element Implementation
 (CCR Title 25 §6202)

Jurisdiction: City of San Diego
Reporting Period: 1/1/2010 – 12/31/2010

Table A2
Annual Building Activity Report Summary - Units Rehabilitated, Preserved and Acquired pursuant to GC Section 65583.1(c)(1)

Please note: Units may only be credited to the table below when a jurisdiction has included a program it its housing element to rehabilitate, preserve or acquire units to accommodate a portion of its RHNA which meet the specific criteria as outlined in GC Section 65583.1(c)(1)

Activity Type	Affordability by Household Incomes				TOTAL UNITS	(4) The Description should adequately document how each unit complies with subsection (c)(7) of Government Code Section 65583.1
	Extremely Low-Income*	Very Low-Income	Low-Income			
(1) Rehabilitation Activity		26	226		252	Assistance from RDA low/mod funds, Housing Trust Fund, lead paint-remediation grant, accessibility grant.
(2) Preservation of Units At-Risk		130			130	The SD Housing Commission purchased the 130-unit Hotel Sanford (SRO) in March 2010, that was at risk.
(3) Acquisition of Units		159	209		368	Projects listed include: Arbor Village, Vista Grande, Courtyard, Mariner's Village.
(5) Total Units by Income		315	435		750	

* Note: This field is voluntary

2011 Affordable Housing Task Force Recommendations

November 8, 2011

POTENTIAL REVENUE SOURCES

SOURCE	PRO's	CON's	IMPLEMENTATION REQUIREMENTS	POT. REV. AMT.	TIME-FRAME
No Voter Approval Required					
1 Redevelopment Agency Repayments of CDBG Funds	Dedicate repayment to HTF; more immediate than voter initiative	CDBG Program Income parameters apply; not a permanent source	Budgetary considerations; loan repayments are in year 3; ea. Year funds go through an allocation process based on goals in the Consolidated Plan.	Up to \$78 mil.	Council/R DA aprvl, budget cycle
2 Reallocation of TOT	Was once part of HTF; best nexus to affordable housing	Large part goes to General Fund	Dedicate what was originally intended for HTF	\$13.6 mil for ea. 1% budget cycle	Council budget cycle
3 Reallocation of Rental Unit Business Tax to AH	Strong nexus; could support Infrastructure Bond.	Not broad based; Revenue goes to General Fund	Sliding scale based on number of units, and whether hotel or non-hotel rental.	FY12 \$5.2 Mil.	Council budget cycle
4 Reallocation of Business Tax	Could support infrastructure bond	Currently goes to General Fund; of the \$5.9 mil, \$1.8 is dedicated to the Small Business Enhancement Pgm. per Council Pol 900-15	Presently flat \$34 for business w/12 or fewer emp; \$125 + \$5/employ. for business w/13+ emp.	\$5.9 mil annually	Council budget cycle
5 Increase Redevelopment Set-Aside	Precedent/supported in other jurisdictions (but typically when they are at the end of the RDA's life).	Is presently in a state of flux; would impact ability to grow tax increment because for every \$1 reinvested downtown, \$7 of private investment is achieved.	Presently 20% of gross tax increment	\$8.5 mil. For ea. Addit. 5% set-aside.	Council/R DA aprvl, budget cycle
Voter Approval Required, Longer Term (2 - 4 Years)					
6 Infrastructure Bond that includes affordable housing	Can be leveraged with other items; better chance at regulatory reform; would establish Affordable Hsg as necessary infrastructure.	Need to identify revenue source to support	Will need to combine with other infrastructure items to get adopted.	Rev. source TBD	Nov. 2012 or 2014

7	Assess Property Tax to bond against	Broad Based; to support Infrastructure Bond.	Must be connected to bonding - only way to assess property tax.	2/3 majority voter approval.	Flat Fee or %	Nov. 2012 or 2014
	Increase TOT	Was once part of HTF; best nexus to affordable housing	Must meet requirements of Council Policy 100-03 re increase (Council Discretion)	2/3 majority voter approval. Presently 10.5 cents per dollar, last increased in 1994.	\$13.6 mil for ea. 1 cent	Nov. 2012 or 2014
8	Increase Real Estate Transfer Tax	Increase for affordable housing only	Present \$5.1 mil all goes to General Fund	As a "conforming" tax, City's rate is credited against County tax of \$1.10 per \$1,000 of sales price. If City tax is changed, it would not be credited against County rate.	\$9.4 mil for ea \$1 /\$1,000	Nov. 2012 or 2014
9	Document Recording Tax	Permanent source; would not have to go back to voters frequently	Need info on how this would be accounted for; Legal opinion re nexus?	For docs recorded within City; Requires 2/3 majority vote	TBD	Nov. 2012 or 2014
10	Refuse Collection Fee	Broad based; Support establishment of tax and use to backfill whatever General Fund monies get reallocated to AH.	Ord. requires dedication to trash collecting	Requires majority vote to repeal People's Ordinance. Fee could be implemented pursuant to Prop. 218 notification process.	\$30.1 mil based on current GF support for refuse coll.	Nov. 2012 or 2014 election followed by Prop 218 notification process
11	One-Time Business Tax on Net worth		Narrowly focused; subject to economic cycles			
Affordable Housing Tools						
12	General Plan Maintenance Fee	City is looking at increasing fee; updated plans are essential to support development of AH	City budget impact	Current rate \$108/plan review	TBD. Depends on rate struc.	Council decision
13	City Land Inventory - Identify Land & Buildings	Could transfer land to SDHC or sell surplus & dedicate proceeds to AH; one-time revenue boost	May not be much "usable" land.	What is City policy on disposing of excess land? State law requires surplus to be used for AH?	TBD.	Council decision
14	School District Land	There is an established list with some developable sites.	Not under our control.	Difficult to implement.	TBD.	

15	Optimized Zoning Incentive Plan ("O-Zip")	Developer pays fee for ea. Additional unit achieved over baseline density; additional DIF fees earned by City	Difficult to establ. Density baseline; Community giveaways included in formula.	City is required to make findings; applicant enters into a development agreement re pymt of fee and vesting project entitlements.	TBD	Council decision
16	Equity Capture on Affordable Housing Re-Sale	Capture a % of equity upon conversion of affordable housing use.	A lien would need to be placed on the unit for 55 yrs.	Would require monitoring over long periods of time.	TBD	Council decision
17	Water & Sewer Fee Reduction	The fee reduction for affordable housing existed for years. Should be re-instituted.	City Attorney opinion that reduction is illegal.	Find a way to reimburse the revenue so that the fee reduction for affordable housing is not illegal.		Council decision