



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 16, 2014

IBA Report Number: 14-29

Smart Growth & Land Use Special Meeting Date: July 17, 2014

Item Number: 1

IBA Review of Proposed Workforce Housing Plan & Housing Impact Fee Amendments

OVERVIEW

On July 17, 2014, the Smart Growth and Land Use Committee (SG&LU) will consider a Workforce Housing Plan proposed by the San Diego Housing Commission (SDHC). This proposal includes a joint recommendation of the SDHC and the Jobs Coalition and contains a variety of elements, most notably an amendment to the Housing Impact Fee, and various suggested Municipal Code changes and other regulatory reforms. This report represents our office's preliminary review of this proposal due to the short timeframe that was available for analysis.

In November 2013 the City Council considered the SDHC's proposed Housing Impact Fee increases which ranged from 377% to 744%. The Council adopted a revised version of this proposal, which raised the fees back to 1990 levels by FY 2015. The fees were phased in over two years (through FY 2017) to increase the fee to the originally proposed amount, and were annually adjusted thereafter. The City Council rescinded its action on March 4, 2014 in response to a verified petition filed with the City Clerk which required Council to either rescind or submit the issue to the voters.

The IBA opposed the 2013 proposal stating it was **excessive**, and recommended **reconsideration of the 2011 proposal** which would have increased the fees by 20% each year for five years, returning the fees to original 1990 amounts by July 2017, with annual adjustments thereafter. We further recommended consideration of exemptions for manufacturing and warehouse distribution projects, phased or delayed implementation, and/or deferred payment which were not part of the 2013 proposal but are addressed extensively in the 2014 proposal.

Our office also supported the 2011 proposal described above when it was first considered by Council in July 2011 but was not approved.

FISCAL/POLICY DISCUSSION

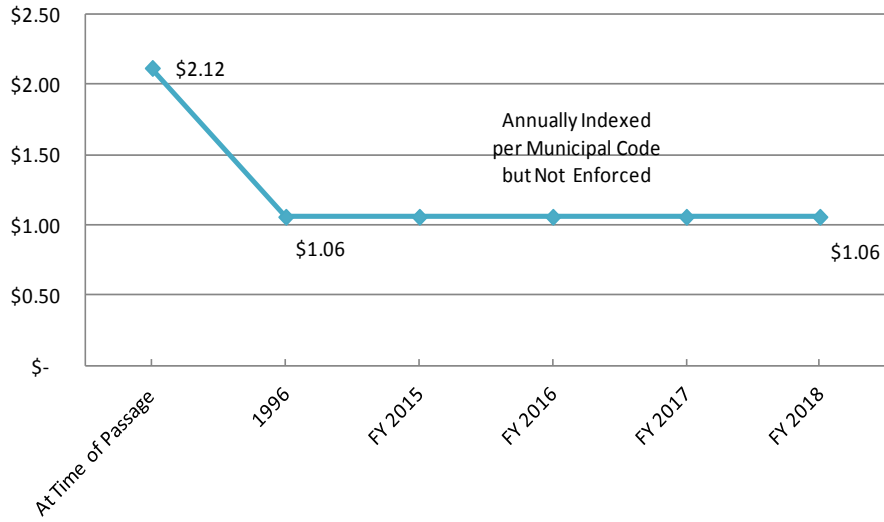
Major Concerns With the Proposal

While we found the 2013 proposal to be **excessive**, we believe the new 2014 proposal is **deficient** in a number of areas.

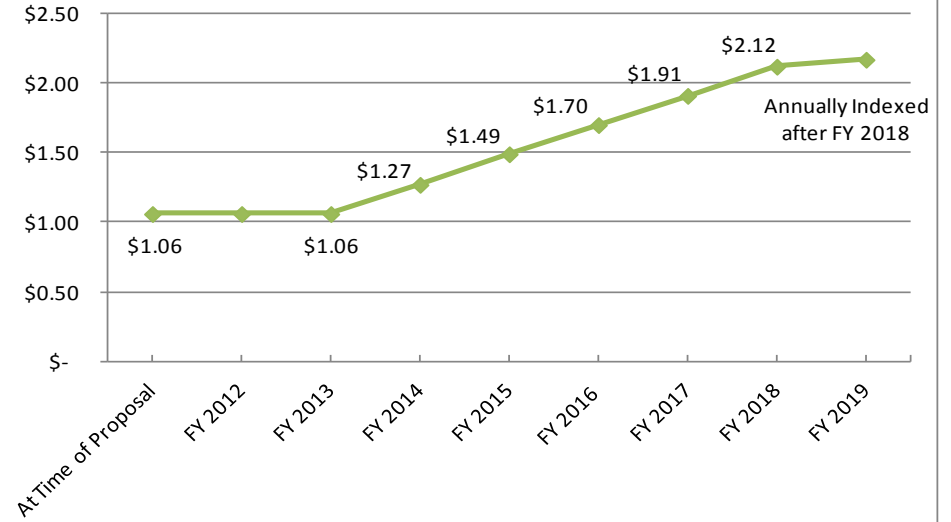
- The 100% fee adjustment (returning to original 1990 fees) would be effective January 1, 2015 and is proposed for a **3 year period only**, unless certain milestones are “met” or “reached” by the City relative to making numerous code, regulatory and policy changes that benefit the development community.
- For many of these milestones, there are **no end goals or expectations defined** and it is unclear how or by whom it will be determined that milestones have in fact been “**met**”, therefore allowing the fee increase to remain in place. For example, note the potential difficulty of interpreting the italicized portions of MOU Item 4.c.(ii); “Adoption of one or more of the *meaningful* (defined as having a *significant impact* on *reducing the cost* of development either by *cost or time*) regulatory reforms that would have a *demonstrable impact* on reducing or *offsetting the cost* of commercial development”.
- If the City does not deliver, which will be subject to varying interpretation, the fee will be **reduced back to its lowest level (reduced 1996 levels)** at the end of 3 years with no further annual adjustment. How can the City deliver when the milestones have not been specifically defined?
- During the 3 year period and net of proposed exemptions, the fee adjustments are estimated to **net \$1.4 million annually which would provide for 14 new housing units each year for a total of 42 new units after 3 years.**
- Whether the fee adjustment sunsets after three years or remains in place, there is no provision for required future annual adjustments, unlike the most recent 2013 proposal.
- At a bare minimum, **annual adjustments should be required if fees are returned to low 1996 levels after the 3 year period.**
- The fiscal impacts of the combination of **proposed exemptions for manufacturing and warehouse; freezing the fee for research and development; “grandfathering”; and pipeline exemptions** need to be understood.
- This document includes language which attempts to **restrict actions by the Housing Commission and the City Council** with respect to any further adjustments to the impact fee until 2018.

Using the “Office” category of the fee, the charts on the next page illustrate the fee currently in place, past proposals, and the current Housing Impact Fee adjustment proposal.

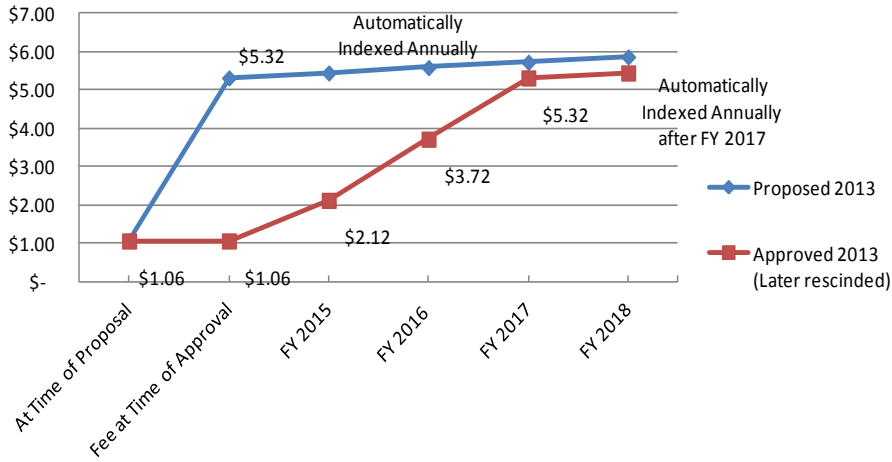
**Figure 1
Office Fee - Enacted 1996 (Current)**



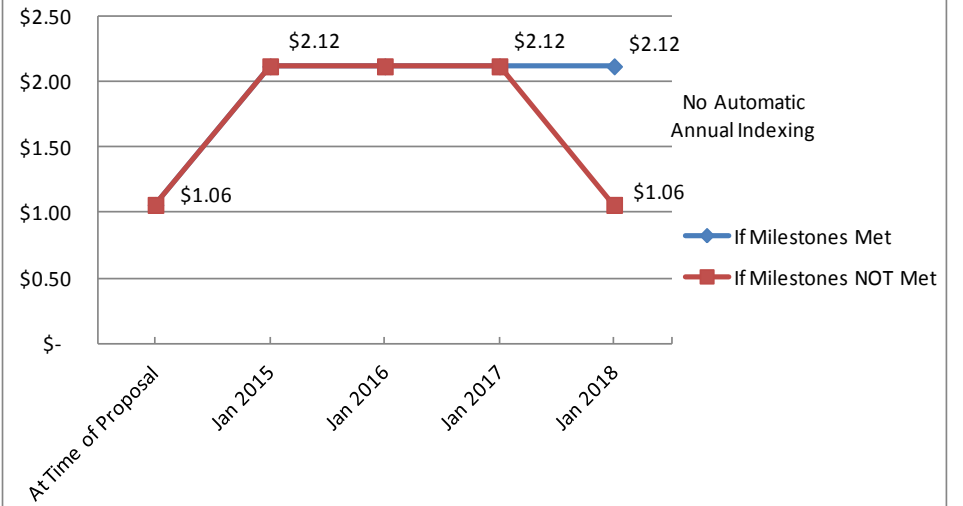
**Figure 2
Office Fee - Proposed May 2011**



**Figure 3
Office Fee - Originally Proposed & Approved 2013**



**Figure 4
Office Fee - Proposed July 2014**



CONCLUSION

The only certainty to this proposal is three years of increased revenue estimated at \$1.4 million annually which would provide an additional 14 housing units each year for three years, based upon an estimated \$100,000 subsidy per unit. Continuation of the fee increase beyond three years is conditional on the City achieving undefined conditions relative to numerous regulatory and cost reforms, implementing expedited permitting programs, and identifying City land opportunities for affordable housing to name a few. The fee proposal also calls for additional exemptions, fee deferrals and grandfathering of pipeline projects during this very short time period, potentially taking away from the 3 year revenue increase.

No required annual adjustment is proposed even if the increase goes away after 3 years, unlike the 2013 proposal. The proposal includes questionable language that ties the hands of the Housing Commission and the City Council with regard to further consideration of any fee adjustments until 2018. Yet during this time period, unless the milestones are more clearly defined, it will be difficult for the City to know if its efforts and actions toward meeting them will be deemed sufficient to ensure continuance of the fee increase after the 3 year period. If not, the fees will be reduced back to the level they have been since 1996 with no annual adjustment.


We understand this is a compromise proposal and that it has been extremely difficult to find common ground. Nevertheless, we feel that this proposal creates greater uncertainty for the future of housing impact fees and does not make sufficient progress in the effort to return to original 1990 fee levels in exchange for commitments to pursue numerous regulatory and cost reductions for the development community.

Other Options for Committee Consideration

Presented below are options for revision to the proposal for Committee consideration:

- A. Remove the sunset provision from the 2014 proposal, and add automatic annual adjustments.
- B. Increase the sunset period from 3 to 5 years, clearly define milestones and add automatic annual adjustments.
- C. Increase fees by 25% for the next 4 years beginning January 1, 2015 to achieve 100% increase (1990 level) by 2018 and add automatic annual adjustments.

As a final note, our office fully supports the request for us to study alternative revenue sources for affordable housing as outlined in the proposal.



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