

DATE ISSUED: November 12, 2003 REPORT NO. 03-214

ATTENTION: Honorable Mayor and City Council
Docket of November 17, 2003

SUBJECT: Pilot Village Program Incentives

REFERENCE: City Manager's Report No. 03-019, General Plan Work Program; City
Manager's Report No. 03-102; Pilot Village Program Incentives, Council
Policy 600-27, Affordable-In-fill Housing and Sustainable Buildings
Expedite Program; Council Policy 900-12, Business and Industry Incentive
Program

SUMMARY

Issue – Should the City Council adopt a package of Pilot Village incentives?

Manager's Recommendation – Adopt the Pilot Village Incentive package as described below.

Land Use & Housing Committee Recommendation – On May 21, 2003, the Land Use & Housing Committee voted 4-0 to recommend City Council approval of the Manager's recommendation with modifications. Modifications have been incorporated into the proposed incentive package.

Planning Commission Recommendation – On September 18, 2003, staff presented this item to the Planning Commission as an information item. Planning Commission supported staff and made suggestions that have been incorporated into this report.

Other Recommendations – The Pilot Village Subcommittee of the Strategic Framework Citizen Committee recommended adoption of an incentive package to facilitate Pilot Village development.

Environmental Impact – This activity is exempt from CEQA per Section 15061(b) (3) of the State CEQA Guidelines. Subsequent village development proposals would be subject to additional CEQA review.

Fiscal Impact – None with this action. Employment of the incentives may have fiscal impacts at the time of use with each project.

Code Enforcement Impact – None with this action.

Housing Impact Statement – This proposal provides an incentive for provision of affordable housing units. Specific housing impacts will be analyzed for each proposed Pilot Village.

BACKGROUND

Pilot Village Program Overview

On October 22, 2002, the City Council adopted the Strategic Framework Element, Five-Year Action Plan, and established the Pilot Village Program. The Pilot Village Program involves the selection of sites around the City to demonstrate the City of Villages strategy and how a village can be built.

As described in the adopted Pilot Village application, the ideal Pilot Village will be located in a highly visible and accessible place and serve as an example that can be replicated throughout San Diego. It will exhibit a style that reflects, respects, and enhances the neighborhood in which it is located. Pilot Villages will foster greater community interaction and mobility, while addressing challenges associated with growth. Successful implementation of the Pilot Village Program will require the City to partner with communities, agencies, property owners, and developers. It is a goal that this process will serve as a catalyst toward implementation of the City of Villages strategy around the City, and act as a model of possibility for every community in San Diego. Based upon the Strategic Framework Citizen Subcommittee recommendation, the Planning Department worked with the development community; other City departments, and the Mayor's Smart Growth Implementation Committee (SGIC) to develop a draft package of incentives. The adopted Pilot Village Program application included an overview of the possible incentives.

Process

Timely implementation being paramount, the Planning Department initiated the Pilot Village Program shortly after the City Council adopted the Strategic Framework Element and City of Villages strategy. The selection process officially began on December 2, 2002. On January 16, 2003, the Planning Department held a Pilot Village open house allowing potential applicants to the program and others to obtain more information, receive assistance with submittal preparation, and ask any additional questions. The Pilot Village application period closed March 14, 2003. The Planning Department received eight applications by the closing date, and determined seven of the eight applications met the Pilot Village threshold criteria (see Attachment).

Technical Working Group

The City Manager established the General Plan Technical Working Group (TWG) in late 2002 to assist in preparation and implementation of the Strategic Framework Element, Action Plan, and Pilot Village Program. The TWG meets monthly, includes City staff from all disciplines, and has been instrumental in developing a list of potential incentives for the Pilot Village Program. During the month of April, the TWG spent considerable time evaluating the seven Pilot Village proposals based upon the criteria listed in the Pilot Village Program document.

Smart Growth Implementation Committee

In June 2001, the Mayor formed the SGIC to assist in removing obstacles to smart growth development in San Diego, and to assist in the implementation of the Strategic Framework Element and City of Villages strategy. The SGIC is co-chaired by Mayor Murphy and Councilmember Atkins. Councilmember Peters also serves on this committee along with civic, education, and business leaders, and the head of key City departments. On March 26, 2003, the SGIC provided input on the Pilot Village Incentive Package. The group also met on May 14, 2003 to discuss the seven Pilot Village proposals, review staff's analysis, and provide a recommendation to the City Manager on a short list.

The City Manager announced the short list on May 21, 2003, based upon the recommendations of the TWG and the SGIC. All seven applicants were invited to participate in the second phase of the Pilot Village selection process. The second phase application period will close on October 31, 2003. Since the Manager's announcement, Planning, and Community and Economic Development staff have been meeting throughout the summer to provide assistance to the applicant teams with the second phase submittals. The TWG and the Governmental Relations Department are also working on developing a legislative program to secure Pilot Village funding at the local, state, and federal levels.

Land Use & Housing Committee

On May 21, 2003, the Land Use & Housing Committee voted unanimously to recommend the approval of the Manager's recommendation with several suggested modifications. A more detailed description of the committee's recommendation is included in the Discussion section of this report.

On September 18, 2003, Planning Department staff presented the Incentive Program to the Planning Commission as an information item. A more detailed description of the Commission's suggestions is included in the Discussion section of this report.

DISCUSSION

Successful village development will be challenging and will require the City partner with communities, developers, and other agencies. Adoption of an incentive package is an important component of the partnership and is a demonstration of the City's commitment to the Pilot Village

Program. Additionally, City Council adoption of an incentive package is necessary in advance of the final selection of the Pilot Villages in February 2004.

The following proposed Pilot Village incentives are grouped into five categories: Infrastructure; fees and taxes; processing; funding and, policies/regulations. Some of the incentives will give Pilot Villages priority status to receive existing funds, while others require a reprogramming of money. By nature, different Pilot Villages will qualify for different incentives, depending on their location and specific proposals.

As mentioned in the Background section of this report, on May 21, 2003, Land Use and Housing reviewed the draft package and recommended City Council adopt it, with several recommendations. The following is a description of the committee's recommendations; the sections in boldface indicate the recommended revisions to the Manager's original recommendation:

1. Infrastructure: Revise the current schedules and complete sewer and water line replacement and upgrades to accommodate the development of the selected Pilot Village sites, **only if this is in compliance with the state water and sewer schedules.**
2. **Fees and Taxes: Provide a fee subsidy, when monies are available, for those Pilot Villages that provide more than 20 percent of the project as affordable housing. The fee subsidy will cover the cost of building permits and impact fees for those units exceeding 20 percent of the total project.**
3. Funding: Commit citywide handicapped access funds to designated Pilot Villages to ensure compliance with the Americans with Disabilities Act (ADA), Title 24, and universal access design standards, **unless these funds are necessary to comply with litigation.**

On September 18, 2003, the Planning Commission reviewed the draft incentives package and offered several recommendations. The recommendations are in boldface and staff responses follow:

1. Discuss which incentives will be exclusive to the Pilot Villages.

While this program gives selected Pilot Villages top priority for many existing City programs, it also introduces incentives that would not be available without this program. One of these new incentives is the provision of a fee subsidy for building permits and impact fees for affordable housing exceeding 20 percent of the project. Another new incentive is the amendment of the Urban Village Overlay Zone or creation of an alternative permit process to facilitate village development. The final two new incentives include the development of legislative initiatives to assist with funding and the assistance to Pilot Village applicants in securing grants and philanthropic opportunities.

2. Add an incentive for energy efficiency.

Staff is researching grant and rebate opportunities and will share this information with the applicants as the Pilot Villages get closer to the construction phase. Many of the grant and rebate programs operate on a one-year timeframe, therefore specific opportunities cannot be identified at this time. The incentive directing the Planning Department to assist applicants in securing applicable grants has been expanded to specifically call out green building technologies.

The complete draft package incorporating Land Use and Housing and Planning Commission's recommendations and a more detailed description of each incentive by category is as follows:

PROPOSED PILOT VILLAGE INCENTIVE PACKAGE

Infrastructure

- Revise the current schedules and complete sewer and water line replacement and upgrades to accommodate the development of the selected Pilot Village sites, only if this is in compliance with the state water and sewer schedules

The City has a schedule of proposed replacements that can be modified on a case by case basis. Modifying the schedule to accommodate villages could occur with adequate advanced planning. Revising the schedule will allow for timely implementation of the Pilot Villages, but may delay such replacements in other areas of the City.

Fees and Taxes

- Defer collection of impact and capacity fees until prior to final inspection.

Fee deferral allows applicants to finance a smaller portion of the project with a construction loan. Construction loans typically have a significantly higher interest rate.

- Provide a fee subsidy, when monies are available, for those Pilot Villages that provide more than 20 percent of the project as affordable housing. The fee subsidy will cover the cost of building permits and impact fees for those units exceeding 20 percent of the total project.

Processing

- Utilize Council Policy 900-12, Business Industry Incentives for selected Pilot Villages.

Pilot Villages meeting the appropriate criteria will have priority status for Council Policy 900-12, Business Industry Incentives. These incentives have been put in place in order to offer financial or other assistance for major revenue and job generating projects that promote a sound and healthy economy, to promote the stability and growth of City taxes and other revenues, to encourage new business and appropriate development in older parts of the City, and to respond to other jurisdictions' efforts to induce business to relocate from San Diego. The Community and Economic Development Strategy 2002-2004 was amended to authorize

business incentives for adopted redevelopment projects; for mixed-use projects, infill projects, and reuse projects in locations identified in the City of Villages Plan; and for housing which meets the needs for both low-income and middle-income households, consistent with the City's inclusionary housing policy.

- Include Pilot Villages as a priority category in amendments to Council Policy 600-27.

On May 20, 2003, the Council adopted amendments to Council Policy 600-27 in order to implement the new Affordable/In-fill Housing and Sustainable Buildings Expedite Program. This policy establishes new expedited permit procedures designed to process affordable/in-fill housing projects twice as fast as the current system allows. Pilot Villages that provide affordable housing as defined in the eligibility section of Council Policy 600-27 will receive top priority of the expedite program.

- Amend the Urban Village Overlay Zone to facilitate Pilot Village development and processing, or create an alternative permit process.

This will assist with village development by providing regulations that will allow for a greater variety of uses, flexibility in site planning and development regulations, and intensity of land uses than are generally permitted in other citywide zones. This could be considered for prioritization in the Land Development Code (LDC) work program.

Funding

- Commit citywide handicapped access funds to designated Pilot Villages to ensure compliance with the ADA, Title 24, and universal access design standards, unless these funds are necessary to comply with litigation.
- Create Pilot Village incentive agreements to rebate a portion of the property taxes if projects involve significant job creation per Council Policy 900-12.
- Provide staff assistance with application for the San Diego Regional Revolving Loan Funds.

The \$3 million fund operates in targeted areas of four cities in the county to provide small business assistance and is administered by the Community and Economic Development Department. Loan size is generally in the \$150,000 to \$500,000 range. Pilot Villages in eligible census tracts that meet the criteria of the program would be eligible to apply.

- Secure funding through legislation to assist with the funding of Pilot Villages.
- Direct the Planning Department to assist Pilot Village applicants in securing applicable grants and philanthropic opportunities, especially in relation to:
 - Universal design
 - Green building technology
 - Storm water best management practices

Policies and Regulations

- When and where appropriate, prioritize current resources and allocate to Pilot Villages for: undergrounding of utilities, affordable housing, Community Development Block Grants, Capital Improvement Projects and any other appropriate resources.

CONCLUSION

Adoption of an incentive package is a critical first step towards guaranteeing the successful implementation of the Pilot Village Program. A primary goal of the program is to learn how to facilitate the revitalization and development of new and existing villages around the City, and to remove obstacles in their path. The draft Pilot Village Incentive Package is a recommendation of how City departments can program and allocate existing resources, while collectively pursuing new revenue sources, to accomplish this goal. Adoption of an incentive package is an important component of the partnership to which the City has committed to bring each Pilot Village to fruition.

Respectfully submitted,

S. Gail Goldberg, AICP
Planning Director

Approved: P. Lamont Ewell
Assistant City Manager

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Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Pilot Village Threshold Criteria