
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 8

Proposed Amendments to the Downtown Planned District Ordinances

OVERVIEW

On October 21, 2009 the Land Use and Housing Committee discussed a proposal to amend the Centre City, Marina and Gaslamp (“Downtown”) Planned District Ordinances. The proposed amendments, originally presented in a June 22, 2009 memorandum from Council President Hueso and Councilmember Frye, would require that downtown hotel projects with 100 to 200 rooms be subject to design review by the Centre City Development Corporation Board (CCDC) in accordance with a Process 4 review (Planning Commission approval, with appeal to the City Council), and that hotel projects with more than 200 guest rooms be subject to design review by the Agency in accordance with a Process 5 review (City Council approval).

At the LU&H meeting on October 21st, the issue was referred to the City Attorney’s Office for legal analysis, and to the IBA with direction to analyze the economic impacts to development downtown, as well as the impact to workers downtown. Subsequent to the LU&H meeting, an alternative proposal was issued in a February 5, 2010 letter to Councilmember Gloria from the Counsel to UNITE HERE Local 30, a labor union representing workers in the hotel and other industries. The alternative proposal moves away from design review, and instead focuses on the issuance of Centre City Development Permits for hotel projects. Under the alternative proposal, issuance of a Centre City Development Permit for hotel projects with 100 to 200 guest rooms would be subject to a Process 4 review, while a Process 5 review would be required for hotel projects with more than 200 rooms. This alternative proposal will be considered by the LU&H Committee on May 19, 2010.

FISCAL/POLICY DISCUSSION

The Centre City Planned District Ordinance (PDO) was adopted in 1992 along with the expansion and consolidation of downtown redevelopment project areas. The PDO was created in order to provide specific development regulations for the downtown area, and to establish an administrative review process for issuance of development permits in order to expedite the review process. The Centre City Development Corporation (CCDC) is charged with administering the PDO to implement and ensure compliance with the Downtown Community Plan.

The Centre City PDO also established review procedures for required development permits, including a Centre City Development Permit, Neighborhood Use Permit, Conditional Use Permit, Coastal Development Permit, Site Development Permit and Variance. While most of these permits are administered by CCDC in accordance with Chapter 12, Article 6 of the Land Development Code, separate procedures are established for the Centre City Development Permit.

Section 156.0303(b)(1) of the Centre City PDO stipulates that a Centre City Development Permit shall be required for all new construction involving 1,000 square feet or more of Gross Floor Area not within an existing structure. The CCDC President may approve the Centre City Development Permit pursuant to a Process 1 (ministerial) review, subject to design review approval. A permit will only be granted if the project found to be consistent with the Downtown Community Plan, Centre City Redevelopment Plan, the Centre City PDO, and other applicable plans and regulations.

The proposal currently under consideration would amend the Centre City PDO to require that hotel projects with 100 to 200 guest rooms be subject to a Process 4 review as defined in Municipal Code §112.0507 and §112.0508, and that hotel projects with more than 200 guest rooms be subject to a Process 5 review as defined in Municipal Code §112.0509. Under a Process 4 review, a permit application may be approved, conditionally approved, or denied by the Planning Commission, with appeal to the City Council. Under a Process 5 review, permit applications are decided upon by the City Council.

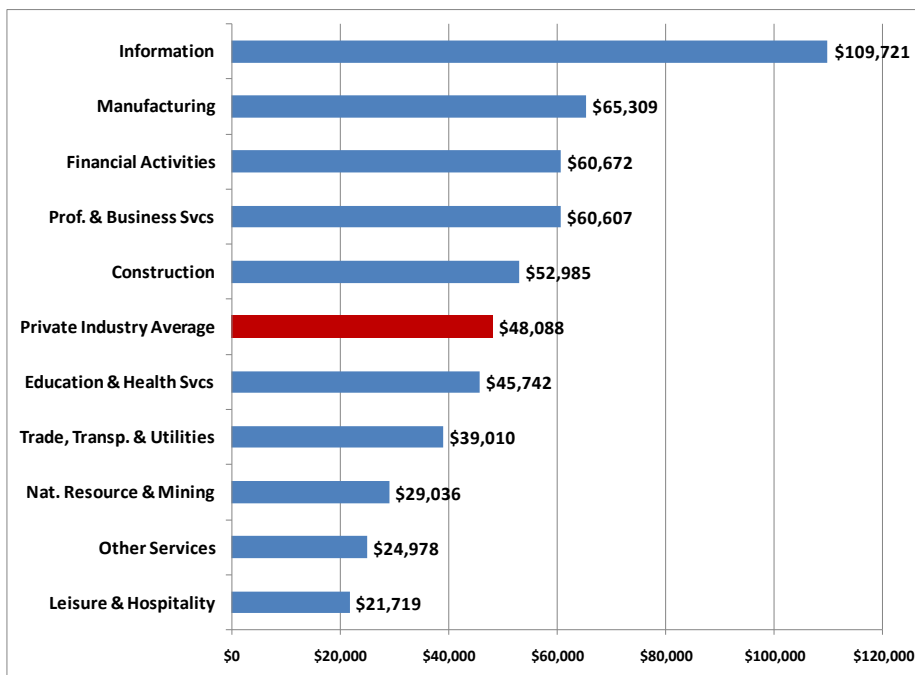
Overall, the economic impact of the proposed amendment on downtown development and downtown workers cannot be adequately determined because the legislative intent of the proposal is unclear. In general, anything that increases costs, lengthens the timeline for review, or increases uncertainty in the permit approval process could have a negative impact on development. On face value, the proposed amendment would simply require a heightened level of review and approval for certain downtown hotel projects. According to CCDC, a Process 4 application may take four to six weeks longer than an administrative review process, while a Process 5 application may take up to three months longer. This delay would lengthen the approval process, but would not seem to create a

prohibitive delay for potential development projects. However, increased uncertainty with respect to the ultimate outcome of this heightened review process is likely to have a more significant impact on development.

Furthermore, without clarification of the policy goals and intended outcomes, it is not possible to determine the economic impact that the proposed amendment would have on downtown workers. Possible outcomes that could benefit workers might be higher wages or increased employment opportunities. However, such economic impacts can only be determined if policy goals and intended outcomes are more clearly defined.

Proponents from UNITE HERE have stated that the goal of this amendment is to provide for a more thorough discussion of the economic impacts of hotel development, particularly with respect to the creation of low-wage jobs. The Center for Policy Initiatives (CPI) has echoed this sentiment, and both proponents have cited the Economic Prosperity Element of the General Plan, which includes the goal of retaining and creating good jobs with self-sufficient wages. According to the General Plan, the average annual salary for employees in the visitor service industry is half of the regional average wage, ranking it among the lowest of all the key industries in the San Diego region¹.

Average Annual Industry Wages, San Diego Region, 2008



Source: State of California Employment Development Department

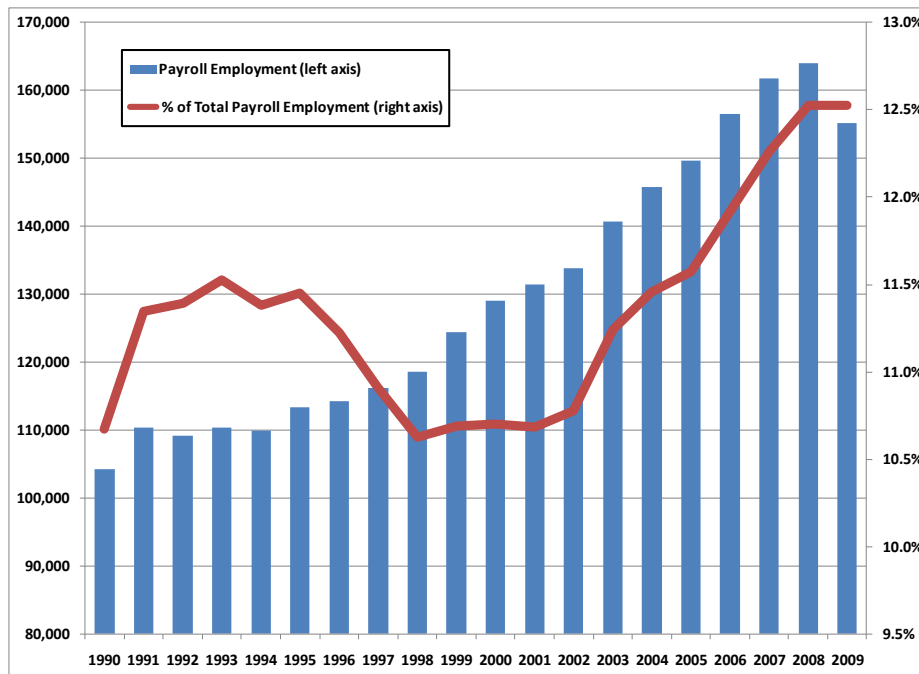
¹ It has been argued that annual compensation data is misleading because it may not include income from tips and gratuities, or recognize the part time or seasonal nature of many jobs in the Leisure and Hospitality industry. See National University System Institute for Policy Research, “Value and Contributions of San Diego’s Visitor Industry,” October 2007.

While the General Plan notes that the success of the visitor industry has resulted in an increased percentage of relatively low-wage employees in the City, it also recognizes the importance of tourism and the visitor-service industry to the region’s economy. As stated in the Economic Prosperity Element, “the visitor-services industry contributes to the diversity and stability of the local economy, including its ability to maintain a relatively low unemployment rate and generate fiscal revenue.”

Indeed, tourism plays a critical role in San Diego’s regional economy. According to the San Diego Convention and Visitor’s Bureau, in 2008 approximately 31.1 million visitors traveled to the San Diego region, with nearly 15.2 million being overnight visitors. Direct visitor spending in 2008 was an estimated \$7.9 billion, resulting in a total estimated economic impact of \$18.1 billion, or approximately 10.7 percent of gross domestic product for the San Diego region.

In addition, tourism is a primary employment driver in the region. According to data from the California Employment Development Department (EDD), in 2009 the Leisure and Hospitality sector generated an estimated 155,200 jobs in the San Diego region, accounting for approximately 12.5% of total industry employment. While total jobs in the Leisure and Hospitality sector declined from an estimated 164,000 in 2008, the long-run trend has reflected a general increase in Leisure and Hospitality employment, both in absolute numbers and as a percentage of total regional payroll employment. This is reflected in the table below.

Leisure and Hospitality Payroll Employment, San Diego Region



Source: State of California Employment Development Department

The creation of low-wage jobs is a significant challenge to the City's economic development goals, and an issue that warrants more comprehensive discussion. ***However, also we believe that this discussion would be more appropriate within the context of a city-wide economic development strategy, not on a project-by-project basis.*** Absent more specific policies and regulations designed to implement the City's economic development goals, we are concerned that prospective developers would be subject to vague permitting requirements and a high degree of uncertainty in the approval process.

Furthermore, it is unclear what findings or decisions could be made on a project-by-project basis that would benefit downtown hotel workers. One possible outcome of the proposed amendment may be a requirement to use either Project Labor Agreements (PLAs) for hotel construction, or unionized labor for hotel operation. Without such an outcome, it is difficult to see how hotel workers would otherwise benefit from the proposed amendment.

Issues related to the use of PLAs, unionized labor, or even living wage ordinances are complex and diverse, and beyond the scope of this report. There is extensive academic literature on the economic impact of these issues, covering a variety of topics from numerous perspectives. These studies generally lack consensus, and often result in contradictory findings. Ultimately, if the legislative intent is to provide higher wages for low income workers – whether through PLAs, unionized labor or some other mechanism – we believe that it would be more appropriate to identify and propose such an initiative directly. This would allow the economic impacts of a specific proposal to be more thoroughly investigated, and for such a proposal to be evaluated on its merits.

Finally, the proposed amendment would provide the Council greater oversight and control over downtown development projects, which is certainly within the Council's purview. However, we would offer a few observations with respect to this outcome.

First, the City Council (and Redevelopment Agency) recently adopted revised Operating Agreements and Bylaws for CCDC and the Southeastern Economic Development Corporation (SEDC) in an effort to strengthen oversight and accountability of the two nonprofit redevelopment corporations. These governing documents were ratified by the CCDC Board on April 14, 2010, and by the SEDC Board on April 28, 2010. Given that these revised governing documents have only very recently been adopted, we would advise that sufficient time be granted in order to gauge their effectiveness before new measures are implemented.

Second, it is unclear why concern with greater oversight and control would be specific to downtown hotels. Other development projects such as office buildings and multi-family residential complexes have similar land use and development characteristics, and would continue to be permitted by right in most downtown land use districts. Furthermore, outside of downtown, hotel development would continue to be permitted by right in

several zoning classifications, such as Commercial-Visitor (CV), Commercial-Regional (CR), Commercial-Community (CC), and Residential-Multi Unit (RM). Provided that hotel projects within these zones do not require a variance, an amendment to the applicable land use plan, or other action requiring Council approval, they currently can be approved ministerially. The higher approval threshold under the proposed amendment could potentially put downtown hotel development at a comparative disadvantage.

Finally, the Centre City PDO is essentially just a mechanism to implement and ensure compliance with the Downtown Community Plan. Adopted by the City Council in March 2006, the Community Plan establishes the guiding principles for future growth and development in downtown, and was developed through extensive community outreach and stakeholder participation. Many of the land use designations established in the Downtown Community Plan specify hotels as an intended use, which should be given due consideration. If there are concerns with particular land use or development characteristics associated with downtown hotels, then it may be more appropriate to identify specific regulations that can be incorporated into the Centre City PDO.

CONCLUSION

The proposal currently before the Land Use and Housing Committee would amend the Centre City Planned District Ordinance to require that the issuance of a Centre City Development Permit for hotel projects with 100 to 200 guest rooms be subject to a Process 4 review (Planning Commission approval, with appeal to City Council), and that the issuance of a Centre City Development Permit for hotel projects with more than 200 guest rooms be subject to a Process 5 review (City Council approval).

Overall, the economic impact of the proposed amendment on downtown development and downtown workers cannot be adequately determined because the legislative intent of the proposal is unclear. While on face value the proposed amendment would simply result in a heightened review and approval process for certain downtown hotel projects, the increased uncertainty with respect to the ultimate outcome of this process may have significant impacts for downtown development. Furthermore, without clarification of the policy goals and intended outcomes, it would not be possible to determine the economic impact of the proposed amendment on downtown workers. Possible outcomes that could benefit downtown might be higher wages or increased employment opportunities. However, such economic impacts can only be determined if policy goals and intended outcomes are more clearly defined.

[SIGNED]

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