

Recommendations and Report: **of the Affordable Housing Task Force**

May 15, 2003

FINAL

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RECOMMENDATIONS:

The City's Affordable Housing Task Force presents the following recommendations to the City Manager:

- 1. Double the City controlled discretionary resources for affordable housing to increase the funds available by \$16 million annually and target increase in the production of affordable homes by over 400 units annually. (These actions do not require voter approval.)**

| | <u>Existing Source</u> | <u>Projected New Revenue</u> |
|--------|--|---|
| (19-0) | a. Increase RDA Set-aside from 20% to 35% | \$ 7,500,000 |
| (19-0) | b. Dedicate at least 40% of CDBG Funds (differential over FY03 11% set-aside), contingent upon approval of an infrastructure package | 5,400,000 |
| (18-1) | c. Re-establish Com./Ind. Linkage Fees at their pre-1996 levels. | <u>3,500,000</u> |
| | <u>Total</u> | <u>\$16,400,000</u> |

- 2. Target locally controlled resources to be more efficient and productive.
(approved unanimously)**

- a. The City Council shall direct all of its departments and agencies to investigate their policies and procedures for documentation of issues impacting the creation of affordable housing and work to find ways to standardize documents such as Due Diligence Reports, Loan Agreements, Bond Issuance Agreements and Developer Agreements. **Estimated Savings of \$200 to \$400 per unit.**
- b. The City Council shall direct the City Attorney to prepare an ordinance defining the time for payment of City Impact Fees for affordable housing projects to be concurrent with the approval of the Certificate of Occupancy or Final Inspection. There will be no requirement for a waiver or bond. All fees for sewer, water, public facilities and housing linkage, will be covered by this ordinance. **Estimated Savings of \$1,500 to \$4,000 per unit.**
- c. The City Council shall direct the City Manager to review the policies and procedures involved with the review of an affordable housing application in an effort to reduce or eliminate the "re-do" and "do-over" requests by staff and the time lost in "waiting for a decision". The Affordable/In-fill Housing Expedite Program (Council Policy 600-27) attempts to address this issue. But the cost per unit to avail this service may erode any cost savings achieved. **Estimated Savings of \$750 to \$1000 per unit, Cost of \$500 per unit.**
- d. The City Council shall direct the City Manager to work through the Planning Department to find the appropriate ways to offer "standardized, pre-approved design programs" or "an affordable housing overlay zone" for reducing costs of

pre-development. The San Ysidro Community is completing such a program at this time. **Estimated Savings of \$500 to \$700 per unit.**

- e. The City Council shall direct the City Manager to require staff to work with project applicants to maximize the leverage of local subsidy money with State and Federal sources of subsidy.

**3. Actively pursue all state and federal sources of money to ensure the residents of San Diego are “getting our fair share”.
(approved unanimously, except for two negative votes on
Recommendation (f).)**

- a. The City of San Diego shall support SB 353 (Ducheny) to reduce the conflicts between State and Local priority rights of lending institutions making loans to affordable housing project. The City Council shall direct the City Manager to review City policies and procedures that impede the ability of developers of affordable housing from obtaining financing due to issues of City priority rights on title.
- b. The City of San Diego shall lobby the State Treasurer’s office to amend the Tax Credit Allocation Plan to remove the bias towards projects applying for 9% Tax Credit financing located in Planned Urbanizing or Future Urbanizing areas of the City.
- c. The City of San Diego shall lobby the State Legislator and Governor to protect the Tax Credit allocation program and ensure that San Diego will continue to receive its proportionate share, whether the funds are exhausted in each year or carried forward.
- d. The City of San Diego shall lobby the State and Federal legislators to remove or reduce the “10 year hold rule” on the use 4% Tax Credit money for the acquisition of existing residences.
- e. The City Council shall create a position (or empower an existing position) within the City Manager’s office to develop a tracking strategy to ensure the City is achieving its Fair Share of all State and Federal funding programs for the design, acquisition and/or construction of affordable housing and set targets for the subsidy levels to be utilized on a per unit basis for each economic category of family income. So that Redevelopment Set-Aside funds are used solely to subsidize the economic gap created by the affordable housing restrictions.
 - i. The City Manager shall prepare a report to the City Council quarterly, outlining the success in achieving State, Federal and Local funds for affordable housing.
 - ii. The City Manager shall prepare a report to the City Council quarterly, outlining the use of the funds collected from State, Federal and Local source for affordable housing and compare the use of funds to the established affordable housing goals
- f. The City of San Diego shall support the passage of AB 1344 (Garcia) to provide for an exclusion of the requirement of prevailing wage for a qualified transfer of real property to a non-profit corporation. The City Council shall lobby the State Legislature and Governor for a continued exemption from the requirements of Prevailing Wage on the construction of affordable housing.

- g. The Technical Advisory Committee (TAC) shall review all development processing regulations to streamline the timing necessary to achieve approval of residential housing projects.
- h. The City Council will coordinate with local business, civic and philanthropic organizations to promote a “Buy San Diego” program to increase the amount of dollars expended by our local economy to remain in San Diego, thereby increasing all local contribution programs.

4. Send to the voters funding plans to meet San Diego’s affordable housing goals. (Approved as per vote shown below.)

- a. Based upon the assumption that San Diego will fill the Local Sources Subsidy Gap with locally provided funds for the creation of 4,796 affordable housing units per year, the Goal for Local Funding for the provision of affordable housing in San Diego is \$138,400,000 annually. The adoption of Recommendation 2 above would save an estimated \$19,200,000 annually, leaving an unfunded annual goal of \$119,200,000.
- b. The City Council shall put before the voters funding plans for the provision of affordable housing utilizing two of the following revenue source alternatives. Any revenue measures before the voters must have a portion set aside for accessible housing.

| <u>i. Revenue Sources</u> | | Dollars <u>Raised Annually</u> |
|---------------------------|--|-----------------------------------|
| (15-1) | 1. An increase from 10.5% to 12.5% in the TOT | \$20,600,000 |
| (15-1) | 2. A 5% Car Rental Tax | 40,000,000 |
| (9-6) | 3. Increase from 7.75% to 8.75% the Restaurant Sales Tax | 21,800,000 |
| (9-6) | 4. A tripling of the Real Estate Transfer Tax* | 12,000,000 |
| (9-6) | 5. A 10% Parking Lot Tax | 19,600,000 |
| Total | | \$114,000,000 |

5. Send to the voters a funding plan to meet San Diego’s other infrastructure needs.

- a. The City of San Diego will propose a \$1 billion infrastructure bond to go before the voters to be financed by an \$11 per month parcel tax with a task force to plan the implementation. This bond would pay for infrastructure for communities identifying housing locations as recommended in the subcommittee 2 report and would be distributed 70% to urbanized communities and 30% to planned urbanizing communities for streets, sidewalks, medians, parks and fire and library facilities that are not already financed. (Approved, with one abstention.)
- b. The City Council will direct the City Manager to reevaluate the Development Impact Fees (DIF) in older communities.

REPORT OF THE FINANCE SUBCOMMITTEE:

The Subcommittee Members of the Affordable Housing Task Force that prepared this report include:

Stephen P. Doyle, Chairman
Brookfield Homes

Nico Calavita
San Diego State University

Michael Galasso
Barone Galasso & Associates

Sue Reynolds
Community Housing Works

Paul Shipstead
Bank of America

Andrea Skorepa
Casa Familiar

Darryl Steinhouse
Luce Forward Hamilton & Scripps

Because of the short time that was available to prepare this Report, the Subcommittee did not go into detail about the rules and restrictions on the use of State, Federal or even some of the Local funding sources that provide money for affordable housing. Nor did we go into detail defining how the new money should be allocated as between new construction, acquisition and rehab, single family or condominium for sale, or rental product. The Subcommittee believes these are details that will need to follow the acceptance and implementation of the Recommendations outlined at the beginning of the Report. The Goal of this Report and the Recommendations is to clarify the need for affordable housing, the need for new and better funding sources for affordable housing and the need for a consolidated, focused effort to achieve these needs.

Section 1: Introduction

The Finance Subcommittee for the Affordable Housing Task Force was charged with reviewing and investigating the costs and sources of money involved with the creation of affordable housing within the City of San Diego. The charge was increased to include recommendations for the use of new revenue sources to fund the current infrastructure needs of the City.* This report focuses on the issue of paying for affordable housing, and makes an attempt to link potential revenue sources with infrastructure needs. More information on the needs and costs of City infrastructure is required to complete an analysis of nexus and prioritize revenue sources.

The Finance Subcommittee wants to thank the staff members from the City of San Diego that were instrumental in providing information, answering questions and debating the issues with us. Their interaction was vital to the success of this work. Specifically, the Subcommittee wants to thank Hank Cunningham, the Director of Community and Economic Development, Jack Farris, the Housing Finance and Development Manager for the San Diego Housing Commission and Charlene Gabriel, the Facilities Financing Manager for the Planning Department, for all their time and effort. We also want to thank the groups, associations and individuals that participated in our discussions or provided us with recommendations to consider.** Their input was welcomed and valued.

This report is set up to give the reader an overview of our discussions, investigations and provide some detail for our recommendations. The Appendix to this report contains some of the materials we used during our discussions, charts we created and references to other materials that are too voluminous to incorporate directly.

The second section of the report deals with the summary of our findings on the financial need for affordable housing in the City of San Diego. The information on the demand for housing was supplied to the Task Force by the Subcommittee for the Identification of Issues.

The third section of the report deals with a description of the financial needs surrounding the production of affordable housing. These needs can be broken down into three subsections; first, the reduction of costs to provide affordable housing; second, other actions impacting the cost of affordable housing; and, third, revenue sources for the production of affordable housing. Each of these subsections is described in detail.

The fourth section of the report deals with the infrastructure needs for the City of San Diego and attempts to link some of the potential new revenue sources to the cost needs of the infrastructure. This analysis and the proposed linkages of revenue sources to infrastructure needs, is a preliminary analysis and requires further development.

The Subcommittee believes many of its Recommendations are ready for immediate implementation and acknowledges that some of the Recommendations will require additional study.

*See Appendix 1 for more information

** See Appendix 2 for more information

Section 2: Description of Problem

The Subcommittee on the Identification of Issues provided the Task Force with input on the needs for affordable housing in San Diego.* Reports from Dr. Gin and Dr. Allen, of the University of San Diego, were reviewed by the Task Force. The following recommendations were approved by the Task Force:

The Need for housing over the next 10-year period is 113,669 homes.

The Goal for the production of housing over the next 10-year period is 84,147 homes.

These numbers are derived from the expected growth of new jobs and new population, and include a provision for the “deficit” in the production of housing since the early 1990’s. The Finance Subcommittee used these numbers for determining the fiscal impact.

The Need and Goal numbers are further defined on an annual basis (by dividing by 10) and on an income basis (by applying the income matrix). This analysis created the following chart:

Production Chart:

| | 10 Year | Annual | Very Low 21% | Low 17% | Moderate 19% | Market 43% |
|------|---------|--------|-----------------|------------|-----------------|---------------|
| Need | 113,669 | | 23,876 | 19,328 | 21,602 | 48,889 |
| | | 11,337 | 2,388 | 1,933 | 2,160 | 4,889 |
| Goal | 84,147 | | 17,671 | 14,305 | 15,988 | 36,183 |
| | | 8,415 | 1,767 | 1,430 | 1,599 | 3,618 |

The need for subsidy for the production of affordable housing has been widely recognized. The high cost of market housing in San Diego and the relatively low Area Median Income (AMI) has created an affordability gap for even those families earning \$60,000 per year. The Subcommittee analyzed the cost of producing new homes, acquiring and rehabilitating existing stock and the income available to citizens in various income categories. A series of proformas for the creation of a new apartment complex were created by Jack Farris, staff to the Housing Commission, based upon input from subcommittee members. Copies of the proformas are included in the appendix of this report on a summary sheet.**

The proformas used generally accepted costs for the construction of new apartment buildings and compared the revenue sources available to cover those costs. Four different revenue schemes were used to analyze the impacts of various funding sources on the subsidy gap necessary to build the project. Subcommittee members also provided information on the subsidies needed from various projects, where they had personal involvement. This information was used to determine an “average subsidy” or “Gap” for various income levels.

*See Appendix 3 for more information

**See Appendix 4 for more information

The Subcommittee acknowledges that the “Gap” may be considerably higher in some suburban locations, or possibly lower in some urban areas. The Subcommittee also acknowledges that the type of project, the size of the project and the construction classification of the project will impact the ultimate size of the “Gap”. With all these factors in mind, the Subcommittee agreed upon the following standards for the calculation of subsidy:

For the production of Very Low and Low Income rental units, a per unit Gap of \$50,000.

For the production of Moderate Income rental units, a per unit Gap of \$25,000.

For the production of Moderate Income for-sale units, a per unit Gap of \$70,000.

The 2000 Census states that the profile of the City of San Diego housing stock is 223,280 owner-occupied units and 227,411 renter-occupied units.* This equates to an approximate 50:50 distribution of the existing housing stock between owner-occupied and renter-occupied units. The Subcommittee agreed that this ratio may be an unrealistic goal for the future production of for sale Moderate Income level housing. A 75% rental, 25% for sale goal was used for the determination of total Gap. The goal can be achieved through acquisition of current market rate product in or the production of new product in Urbanized, Planned Urbanizing or Future Urbanizing Communities.

From the chart above describing need for each of the income classifications, the following information was created:

Gap Analysis Annual Need

| | Demand | Less FUA & Inc. Zon. Prod. ** | | | | Gap | Total Subsidy |
|------------------|--------------|----------------------------------|-----|---|-------|-----|--------------------------|
| Need: VL&L | 4,321 | - | 700 | = | 3,621 | x | \$50,000 = \$181,050,000 |
| Mod – 75% rental | 1,620 | | | | | x | \$25,000 = \$ 40,504,200 |
| 25% own | <u>540</u> | | | | | x | \$70,000 = \$ 37,803,920 |
| | 6,480 | | | | | | \$259,358,120 |
| Goal VL&L | 3,197 | - | 700 | = | 2,497 | x | \$50,000 = \$124,850,000 |
| Mod – 75% rental | 1,199 | | | | | x | \$25,000 = \$ 29,977,369 |
| 25% own | <u>400</u> | | | | | x | \$70,000 = \$ 27,978,878 |
| | 4,796 | | | | | | \$182,806,247 |

This analysis shows the Goal for the creation of subsidy for the production of new affordable housing is **\$182,806,247 per year!**

*See Appendix 5 for more information

**See Appendix 6 for more information

Section 3: Description of Issues

The financial issues surrounding the production of affordable housing come in many colors. Regulation, administration and the need for dollars (lots of dollars) all contribute to the high cost of building new affordable housing. This Section will look at some of these issues, specifically the issues that deal with the financing of the construction of new homes.

- A. The first issue the Subcommittee looked at was the reduction in costs to provide new housing. If a dollar can be saved, it is a dollar that does not have to be raised from other sources. Detailed recommendations from the Subcommittee for Development, Regulations and Incentives will provide a much more thorough review of this specific area. The Finance Subcommittee focused on the some specific “dollar to the proforma” issues for its review.

Areas of cost impact that should be further reviewed included:

1. **Standardization of Documentation and Duplication of Effort:** The Subcommittee found that cost savings of up to \$20,000/project were available if the governmental agencies involved with the review and approval of documents and reports needed for the approval of an “Affordable Housing Project” coordinated their efforts. Specific areas for attention included loan documentation, due diligence reports, the Cost of Issuance and Closing for bonds and tax credit financing agreement and specific developer agreements. **Estimated Savings of \$200 - \$400 per unit.**
2. **The timing of payment for Impact Fees:** The Subcommittee found that certain fees, Impact Fees in particular, were substantial in size and costly to finance. These fees are charged to mitigate the impacts on public facilities from the creation of new housing. The impact is created when the new home is occupied. The fee is collected at the issuance of the building permit. The total cost of Impact Fees can typically range from \$20,000 to \$50,000 per home. On a 100 home project, the total fee would be between \$2 and \$5 million. When collected at the time of building permit, the financing cost of the fees is \$160,000 to \$400,000 (that is 8% interest on \$2 or \$5 million for one year). The Subcommittee noted that the City has a policy that allows the deferral of some fees and the ability to post a bond to defer other fees. The Subcommittee believes all fees should be due at Certificate of Occupancy with no bond or waiver (with a fee) required. The need for cost recovery fees was discussed by the Subcommittee and noted that they were paid for work being done concurrent with the payment. **Estimated Savings of \$1,500 to \$4,000 per unit.**
3. The Subcommittee discussed the changing reality in the creation of new development projects in the City of San Diego. The days of large Master Planned Communities are coming to an end. Future growth will be accomplished primarily through small infill subdivisions, acquisition and rehab of older, substandard housing and redevelopment of existing uses. The nature of these projects is different from Master Planned Community design. So to are the developers of these projects. The ability of small projects to provide City staff with numerous “re-do’s” is severely limited. The ability of small projects to pay for legions of consultants and attorneys strictly limited. A new approach to project review will be necessary for City staff to implement. A more cost conscious approach to planning and engineering reviews will be necessary. The

change in mind-set will not come easily or quickly, but it must come. The City has begun to develop an Affordable/In-fill Housing Expedite Program (Council Policy 600-27) attempts to address this issue.* But the cost per unit to avail this service may erode any cost savings achieved. **Estimated Savings of \$750 to \$1000 per unit, Cost of \$500 per unit.**

4. The ability to reduce the number of issues a project must wade through is equally important. To the extent “standard” or “pre-approved” design concepts or “an affordable housing overlay zone” can be incorporated into Community Plans and Design Guidelines, the greater the cost savings to the individual project. The Community of San Ysidro is exploring this concept today. The Subcommittee salutes and supports this new approach to project approval. The Building Department is working on new regulations dealing with townhouse design, to the extent these can be standardized for every townhome project the Subcommittee would support them. **Estimated Savings of \$500 to \$700 per unit.**

The Goal for the Task Force is to identify programs and revenue sources to provide 4,797 affordable units per year. If the cost savings identified above were applied to each of these units the savings could approach:

| Savings | | | Number of Units | | Total Annual Savings |
|------------------------|---------------------|----------|--------------------|----------|----------------------|
| Low Side Estimate | | | | | |
| Of Savings | \$2,450/unit | x | 4,797 units | = | \$11,752,650 |
| High Side Estimate | | | | | |
| Of Savings | \$5,600/unit | x | 4,797 units | = | \$26,863,200 |
| Average Savings | \$4,000/unit | x | 4,797 units | = | \$19,200,000 |

- B. The Subcommittee also looked at other issues, regulations, administrative decisions that impact the cost of Affordable Housing. Some of these issues are being dealt with by pending legislation, others are in the process of being changed by local agencies and still others need the light of common sense and economic sense shined upon them.

Specifically the Subcommittee reviewed:

1. The State Board of Equalization determines the tax-exempt status of the “owner” of an affordable housing project. It was brought to the Subcommittee’s attention that delays of up to a year were occurring in the determination of the owner’s status, this was creating the need for the nonprofit owners to pay property taxes (for the first year at a minimum) and seek reimbursement after the fact. Or, in the most serious of situations, cause delays in financing the finished project because of the lack of “non-profit” status. The Subcommittee is happy to report this issue was resolved by the Board of Equalization during our discussions.
2. CalHFA requirements are keeping developers of affordable housing in the City’s FUA from obtaining financing through this State Agency. An issue of “first priority on title” is keeping the agency from offering below market rate financing

*See Appendix 7 for more information

for new units. Senator Ducheny has introduced SB 353 to correct this issue. * The Subcommittee recommends the City of San Diego support SB 353 and also encourages the City to review its policies and procedures for priority rights on title policies. The issue of financing an affordable housing project is more important than maintaining a priority right for a planning issue on a project about to be built.

3. The availability of 9% Tax Credits for projects in the City's FUA and Planned Urbanizing communities is hampered by a policy preference of the State Treasurer. A two-point bias for urban infill and projects that revitalize older communities creates a near impossible situation for the developers of affordable housing projects that do not meet these "preferences". The preference also creates additional barriers to the City's Balanced communities goal by making the financing of new affordable housing projects outside the urban core more difficult and expensive. The Subcommittee also supports the protection of the annual allocation of tax credit dollars to the individual regions and recommends the City of San Diego be vigilant in protecting those rights and the carry over rights for credits not used in a specific Subscription period. The Subcommittee also found that the Federal "10 year hold rule" for the use of 4% Tax Credits on the acquisition of existing residential stock was a major disincentive to the creation and preservation of affordable housing. The Subcommittee recommends this rule be deleted or revised to a much lower hold time.
4. The Subcommittee investigated the issue of Fair Share for affordable housing dollars. While there appears to be no clear cut answer to the question "Is the City of San Diego achieving its fair share from state and federal funding sources for affordable housing?" The Subcommittee believes more emphasis needs to be placed on assuring the City Council and developers of affordable housing that all efforts are being made to consistently place City projects at the top of every list of potential funds.
5. The Subcommittee discussed the issue of prevailing wage and the creation of affordable housing. A recent law (AB 975, 2000), provided for the exemption of affordable housing projects from the requirements of prevailing wage. Recent legislation (2002) and findings from the Labor Commissioner bring this exemption into dispute. Many believe the exemption for the requirement of prevailing wage will end this year. Starting in 2004, the additional costs for prevailing wage will increase the hard costs of construction for affordable housing by 15 to 20 percent, **adding between \$7,500 and \$10,000 per unit**. A proposed law (AB 1344) would provide for an exclusion of the requirement for prevailing wage on an affordable housing project where a qualified transfer of real property is made to a non-profit corporation. The Subcommittee supports this legislation.**
6. There are many local organizations and city agencies "assisting" in the creation of new affordable housing. The Subcommittee investigated the process for planning and developing a new affordable housing project and found many areas of the process could use improvement. The coordination on financing, project review, due diligence, documentation and construction is overly difficult and burdensome. A fresh look at the policies and procedures of each organization and agency would help streamline the process to develop new housing.

*See Appendix 8 for more information

** See Appendix 9 for more information

7. Subcommittee investigated the use of Land Trusts as a vehicle for lowering the costs of affordable housing. The idea revolves around the ownership of land. A non-profit (Trust) collects land from public and private sources, either through donations or acquisition (acquisition creates another need for funds). The land is then utilized for the creation of affordable housing. With the land cost removed from the proforma more projects are likely to be able to garner the necessary public monies for construction and management. Excess City property, approved for residential use, should be set aside into a Land Trust.
 8. The Subcommittee found that co-op ownership programs are another way to reduce the cost of homeownership. Co-ops on Land Trust property are an even better way to reduce ownership costs and maintain long-term affordability.
- C. The revenue sources for the production of affordable housing are many in size and shape. The Subcommittee dug deep into the financing nightmare for a new affordable housing project. Many such projects require four or five or more funding sources to be coddled together before a project can become a reality. The difficulty in collecting all of the sources of money and the timing of getting them collected and the order in which they must be collected requires a doctorate degree in finance from Wharton's Business School. It is not for the uninitiated or innocent to try!

The Subcommittee analyzed the expected sources of funds from Federal, State and Local sources. While there is no guarantee that these sources will be available every year, the Subcommittee determined that the following information was a good starting point for its analysis. The chart below identifies Federal and State sources of money that can be expected in a normal year to be provided to San Diego projects:*

| <u>Source</u> | <u>Dollars Available</u> |
|-----------------------------|-------------------------------|
| 9% Tax Credits | \$ 13,300,000 |
| 4% Tax Credits | \$ 14,000,000 |
| MFH Bond Funds | \$ 41,000,000 |
| AHP (Fed. Home Loan Grants) | <u>\$ 1,000,000</u> |
| Total | <u>\$ 69,300,000 annually</u> |

Some of the sources identified are derived from allocations to the San Diego region, others are based upon the historic facts regarding the ability of projects to garner funds through a competitive process and still others are based upon project specific attributes and developer preferences. With all these qualifiers being stated, the Subcommittee feels the total dollar amount shown above is a reasonable estimate of the annual Federal and State funds received by projects proposed within the City of San Diego.

*See Appendix 9 for more information

The Subcommittee also looked at Local sources of money from that were determined to be available on a normal basis. Some of these dollars are used in the creation of affordable housing, some of them are used for the planning and design of affordable housing. The Local dollars made available to affordable housing in a normal year included:

| <u>Source</u> | <u>Dollars Available</u> |
|-------------------|--------------------------|
| Home Funds (H.C.) | \$ 7,000,000 |
| RDA Set-asides | \$10,000,000 |
| CDBG allocations | \$ 2,004,000 |
| Trust Fund (H.C.) | <u>\$ 3,500,000</u> |
| Total | <u>\$22,504,000</u> |

The reason these Sources are highlighted is to begin the review of the next phase of the Subcommittee's work. What are the expected local sources for next year? And, where can additional sources of revenue be found to augment these sums, so that production can be quadrupled? The Subcommittee calculated an annual local sourced financial goal of **\$182,806,247** (see Section 2 discussion). This goal is based upon the assumption that Federal and State Sources of funds for affordable housing will remain fairly consistent from year to year. Therefore, the annual local source financial goal will provide the funds necessary to "fill the gap". Should State and Federal Sources change, the need for local sources would change in relationship. For example, in last year's election, Prop 46 was passed. This initiative provides funding for affordable housing projects. It is anticipated these dollars will replace dollars in 2003 that were made available from the State in 2002 because of budget issues at the State. Should the available dollars from the State or Federal sources decrease, the local source dollars would be required to increase to offset the change and continue to meet the projected goal for annual funding. The Subcommittee believes the Local Sources of funds on a "go-forward" basis will look like the following:*

*See Appendix 10 for more information

| <u>Local Sources</u> | <u>Typical Year Dollars Available</u> | <u>Future Year Estimate Dollars Available</u> |
|--------------------------|---|---|
| RDA Set-asides | \$10,000,000 | \$15,000,000 |
| CDBG Set-asides | \$ 2,004,000 | \$ 3,783,000 |
| Com/Ind Linkage Fee | \$ 3,500,000 | \$ 7,000,000 |
| Incl. Zoning In lieu Fee | \$ 0 | \$ 0 |
| Home Funds (H.C.) | \$ 7,000,000 | \$ 7,000,000 |
| RDA's Joint Housing Bond | \$ 0 | \$ 5,500,000 |
| Total | <u>\$22,504,000</u> | <u>\$38,283,000</u> |

The difference noted in the Local Sources for 2002 and 2003 represents the next phase of this discussion. The Subcommittee reviewed 38 different sources of revenue available to the City of San Diego. Some of the sources were already being used for creation of new affordable housing (like the RDA set-asides, the CDBG set-asides, the Joint RDA Housing Bond and the Housing Trust Fund fees). The Subcommittee has made some specific recommendations regarding these Local Sources of funds, as represented by the chart above.

First, the Subcommittee reviewed the Redevelopment Agency programs for setting aside tax increment dollars for the provision of affordable housing. We compared the San Diego policy of a 20% set aside (the State law minimum) with the policies of other jurisdictions. The Subcommittee found that the percentage set-asides for other cities varied from 25% (in Los Angeles and Oakland) to 50% (in San Francisco). The Subcommittee decided that a 30% set-aside was more appropriate for San Diego, as shown in the chart above. *

The CDBG set-aside for 2002 is 11% of the total CDBG funds provided to the City. City Council 700-02 recommends the set-aside of 20% of the CDBG funds for affordable housing. The chart above recognizes this difference, based on 2002 funds received.**

The Redevelopment Agencies within the City of San Diego have agreed to pool a portion of their unencumbered 20% set-aside funds to produce a \$55 million bond for the production of new affordable housing. The bonds will be sold on an "as needed" basis to match projects with bond funds. This program has been approved and is moving ahead. The chart shows a straight-line distribution of those funds over the 10-year horizon.

*See Appendix 11 for more information

**See Appendix 12 for more information

The Housing Trust Fund is set up today to receive linkage fees from the development of commercial and industrial projects (outside the Enterprise Zones). These fees were cut in half in the 1996 to respond to the economic down cycle. The Subcommittee recommends these fees be restored to their original levels, increasing the fee collection by approximately \$3.5 million per year. In addition, an Inclusionary Housing Ordinance is working its way through the City. This ordinance will allow for the provision of 10% affordable units in each new housing project, or the payment of a fee. The city estimates the total collected fee will be in the range of \$6 to \$9 million. The Housing Commission estimates all of this money will be used to provide additional incentives to those builders that construct affordable units, thereby ensuring the construction of approximately 500 new units per year. When combined with the affordable units created through the 20% inclusionary requirement in the FUA, the Housing Commission estimates the total production of the inclusionary programs to be approximately 700 units per year (see page 9 of this Report).

These four changes are reflected in the chart above.* In addition, a spread sheet of other revenue source alternatives was created. Alternative revenue sources were garnered from previous reports prepared for the City, staff recommendations, Subcommittee recommendations, and the recommendations of guests. They are organized on the spread sheet by three factors; first, the nexus of the source to the need for affordable housing; second, the priority of the source within realm of political, social and economic needs; and, third, the reality of the source for affordable housing needs given all the other demands for municipal financing.

*See Appendix 13 for more information

| San Diego City / County Funding Sources Identified | | | | | | | | | |
|---|----------------|------------------------------|--------------------|-----------|------------------------|---|---------------------|-----------------------|---|
| 16-Apr-03 | | | | | | | | | |
| Category | Funding Source | Type of Fee | Value for Payment? | Value | Amount | Assessment | Impact Rating (1-5) | Priority Rating (1-5) | Comments |
| | | | | | | | | | |
| 1 | 1-17-1 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.2 million | Based on current revenues, per 1% tax | 1 | 1 | From Manager's Plan part (02-00-01) |
| | 1-17-2 | 85% of general, 15% of local | 2-10-03 | City-wide | see above | Analysis for local portion of receipts for | 1 | 1 | Alternative analysis |
| | 1-17-3 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.5 million | Small fee: Tax on \$10 to \$100, large fee: Tax on \$100 to \$200, & \$200 to \$300, & \$300 to \$400 | 1 | 1 | From Manager's Plan part (02-00-01) |
| | 1-17-4 | 85% of general, 15% of local | 2-10-03 | City-wide | \$4.2 million | 5% of 1% for services | 1 | 1 | From Manager's Plan part (02-00-01) |
| | 1-17-5 | 85% of general, 15% of local | 2-10-03 | City-wide | \$6.5 - \$10.8 million | As per ordinance | 1 | 1 | State of Fund - AC activities |
| | 1-17-6 | 85% of general, 15% of local | 2-10-03 | City-wide | \$1.75 million | 25% of \$10.52 MM less \$2.00 MM allocated during FY 2002 | 1 | 1 | Good service - Current Policy |
| | 1-17-7 | 85% of general, 15% of local | 2-10-03 | City-wide | \$8 million | Revenue from 20% to 30% revenues \$2MM | 1 | 1 | Good service - Current Policy |
| | 1-17-8 | 85% of general, 15% of local | 2-10-03 | City-wide | \$24 million | Tax on all new retail receipts of 1% | 1 | 1 | From Manager's Plan part (02-00-01) |
| | 1-17-9 | 85% of general, 15% of local | 2-10-03 | City-wide | \$1.5 - \$2.5 million | Double existing fee | 1 | 1 | State of Fund - AC activities |
| | 1-17-10 | 85% of general, 15% of local | 2-10-03 | City-wide | \$21.8 million | Tax on new retail receipts of 1% | 1 | 1 | Good service - State of Fund - AC activities |
| | 1-17-11 | 85% of general, 15% of local | 2-10-03 | City-wide | see above | see above | 1 | 1 | State of Fund - AC activities |
| | 1-17-12 | 85% of general, 15% of local | 2-10-03 | City-wide | \$1.80 | police/mileage | 1 | 1 | Good service - State of Fund - AC activities |
| | 1-17-13 | 85% of general, 15% of local | 2-10-03 | City-wide | \$1.80 | Police Service | 1 | 1 | Good service - State of Fund - AC activities |
| Subtotal | | | | | \$52 million | \$52 million | 1 | 1 | |
| 2 | 2-17-1 | 85% of general, 15% of local | 2-10-03 | City-wide | \$8 million | Based on existing receipts 1% and existing | 2 | 1 | Continuing program per City of 1.50% to City of 1.50% |
| | 2-17-2 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.8 million | Tax on all parking lot receipts at 1.5% | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-3 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-4 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-5 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-6 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-7 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-8 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-9 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-10 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-11 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-12 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 2-17-13 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| Subtotal | | | | | \$52 million | \$52 million | 2 | 2 | |
| 3 | 3-17-1 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.8 million | Based on existing receipts 1% and existing | 2 | 1 | Continuing program per City of 1.50% to City of 1.50% |
| | 3-17-2 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.8 million | Tax on all parking lot receipts at 1.5% | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-3 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-4 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-5 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-6 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-7 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-8 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-9 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-10 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-11 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-12 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 3-17-13 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| Subtotal | | | | | \$52 million | \$52 million | 3 | 3 | |
| 4 | 4-17-1 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.8 million | Based on existing receipts 1% and existing | 2 | 1 | Continuing program per City of 1.50% to City of 1.50% |
| | 4-17-2 | 85% of general, 15% of local | 2-10-03 | City-wide | \$10.8 million | Tax on all parking lot receipts at 1.5% | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-3 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-4 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-5 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-6 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-7 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-8 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-9 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-10 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-11 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-12 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| | 4-17-13 | 85% of general, 15% of local | 2-10-03 | City-wide | \$5 million | \$1.50 per parking lot receipt | 2 | 1 | From Manager's Plan part (02-00-01) |
| Subtotal | | | | | \$52 million | \$52 million | 4 | 4 | |
| Total | | | | | \$208 million | \$208 million | 1 | 1 | |

The Funding Sources Identified chart is reproduced in the appendix in a larger format. Information for many of the sources investigated is reproduced in the appendix.*

The Subcommittee also looked at the amount of money that is expected to be generated by most of the sources of revenue and the process by which the revenue source could be activated (ie, ordinance or election). There are comments regarding each revenue source and assumptions regarding its generation or area of impact. While not complete or all encompassing, the spread sheet assisted the Subcommittee in its deliberations on how to bridge the gap between the Local sources of revenue anticipated and the goal, as established in Section 2. **The differential between the Annual Goal (\$182,806,247) and the estimated Local sources (\$38,283,000) is \$144.5 million. If the Recommendations for Targeted Resources described above in Section 3A (\$19,200,000) are incorporated into Local sources for future years, the differential is \$125 million per year.**

The following Revenue Sources would generate approximately \$114,000,000 of the \$125,000,000 differential, annually.

| Revenue Sources | Dollars Raised Annually |
|--|-----------------------------|
| 1. An increase from 10.5% to 12.5% in the TOT | \$20,600,000 |
| 2. An increase to the Business License Tax | 16,500,000 |
| 3. A 3% Car Rental Tax | 24,000,000 |
| 4. Increase from 7.75% to 8.75% the Restaurant Sales Tax | 21,800,000 |
| 5. A tripling of the Real Estate Transfer Tax | 12,000,000 |
| 6. A 10% Parking Lot Tax | 19,600,000 |
| <u>Total</u> | <u>\$114,500,000</u> |

or

| ii. Revenue Sources | Dollars Raised Annually |
|--|-----------------------------|
| 1. An increase from 10.5% to 12.5% in the TOT | \$20,600,000 |
| 2. An increase to the Business License Tax | 16,500,000 |
| 3. A 4.5% Car Rental Tax | 36,000,000 |
| 4. Increase from 7.75% to 8.75% the Restaurant Sales Tax | 21,800,000 |
| 5. A 10% Parking Lot Tax | 19,600,000 |
| <u>Total</u> | <u>\$114,500,000</u> |

or

*See Appendix 14 for more information

| <u>iii. Revenue Sources</u> | <u>Dollars Raised Annually</u> |
|---|------------------------------------|
| 1. A Parcel Tax of \$10/parcel/month | \$52,080,000 |
| 2. An increase from 10.5% to 12.5% in the TOT | 20,600,000 |
| 3. An increase to the Business License Tax | 16,500,000 |
| 4. A 3% Car Rental Tax | 2,000,000 |
| <u>Total</u> | <u>\$113,180,000</u> |

or

| <u>iv. Revenue Sources</u> | <u>Dollars Raised Annually</u> |
|--|------------------------------------|
| <u>1. A Parcel Tax of \$22/parcel/month</u> | <u>\$115,200,000</u> |

The Subcommittee spent a good deal of time creating the Funding Sources Identified Spread Sheet (as shown on the previous two pages). Each of the potential revenue source was analyzed for its nexus to housing, program for achieving (ordinance or vote) and the reality of getting such a source into revenue production. The Subcommittee focused on the seven sources noted above for the following reasoning:

1. A 2% increase in the Transit Occupancy Tax (from 10.5% to 12.5%) was determined to be a good source for affordable housing revenues. The demand for affordable homes, created by the jobs in the hotel and motel industry is very high, a very good nexus. The fact that San Diego's TOT is one of the lowest in the State was a very positive statement for increasing the tax. The discussion at the Subcommittee ranged from a 1% to 4% increase in the amount collected, we settled on a 2% increase for housing.

2. The Business License Tax is another revenue source the Subcommittee felt had very good nexus and was substantially lower in San Diego than in other California cities. The Subcommittee discussed changing the tax to a gross receipts tax and or a payroll tax, but ultimately decided the easiest way to go was to utilize the existing formula. Small businesses (12 or less employees) today pay \$34 per year. The subcommittee recommends this be raised to \$74 per year. Large businesses (13 or more employees) pay \$125 per year and \$5 per employee. The Subcommittee recommends this be raised to \$250 per year and \$50 per employee.

3. The City of San Diego does not currently charge a tax on car rental receipts. The Subcommittee found this to be a source of revenue utilized by many other jurisdictions. They also found the nexus between low paying jobs in the car rental business and the need for affordable housing to be very high. The Subcommittee recommended a 3% or 4.5% tax on care rental receipts be collected for affordable housing, depending on the selection of the overall financing program.

4. The City of Miami, Florida collects an additional 1% tax on all restaurant receipts and utilizes the revenue for affordable housing. The Subcommittee found the nexus for low paying jobs in the restaurant business and the need for affordable housing to be very high. The Subcommittee also discussed the similarities between the TOT and Car Rental Tax with the additional 1% Receipts Tax on restaurant revenues. The Subcommittee recommended this source to be included.

5. The Real Estate Transfer Tax was discussed at length by the Subcommittee. A nexus was not considered to be as high as the nexus for the sources listed above, but was still thought to be good. San Diego has the lowest Real Estate Transfer Tax in the State at \$1.10 per \$1,000 of value. Other Cities were found to be as high as \$15.00 per \$1000 of value. The Subcommittee debated the tax being raised to \$3.30 per \$1,000 of value, recognizing that the City would only receive \$2.20 per \$1,000 of value, because of the rules of splitting “non-conforming” taxes collected with the County of San Diego. A portion of the Subcommittee found this to be an acceptable approach to funding the affordable housing goal. Another portion of the Subcommittee found this approach to be punitive and focused on a narrow segment of the population (those selling property in any given year). The discussion of broad based funding sources ensued, leading the Subcommittee back to a discussion of Parcel Taxes (see item 7. below).

6. The Parking Lot Tax was another revenue source where the nexus was not as high as the first four sources, but still found to be good. San Diego does not have a separate tax on Parking Lot Receipts. The Subcommittee found that this was a good source of revenue for affordable housing and recommended a 10% tax be placed on Parking Lot Receipts.

7. The Parcel Tax is collected with the semi-annual property tax payment. The tax is recommended to be a flat fee charged to every legal parcel in the City of San Diego. The Subcommittee found this approach to provide the broadest basis for the imposition of a tax and hence a very equitable means of raising money for affordable housing. The Parcel Tax could be used to collect a portion of the local revenue goal or the entire amount. More research on the public’s willingness to accept this revenue source and the level they are willing to accept it is necessary. The Subcommittee assumed approximately 434,000 legal parcels exist in the City of San Diego.*

More information can be found on these sources and other sources listed in the Spread Sheet by referring to Appendix 14.

* See Appendix 14 for more information

Section 4: Description of Infrastructure Needs

Infrastructure needs for the City of San Diego are well documented and often quoted as \$2.1 billion. This estimate came from a report from the City's department overseeing the Facility Benefit Assessment (FBA) and Development Impact Fee (DIF) Programs. The staff looked at the existing DIF programs in the Urbanized Communities and projected the estimated cost for the facilities needed and the expected funds to be raised. The deficit was \$2.1 billion. While there are questions about how this number was generated and a more intense review of the situation is now underway, this is the best information the Task Force has to work with at this time.

What has not been widely discussed are the other facility needs that have been identified for the City. Some of these facility needs are reported in the Blue Ribbon Committee report on City Finances (dated February 2002), some of them are outlined in the SANDAG regional transportation analysis done for the extension of the TranNet Half Cent Sales Tax measure (originally approved in 1988) and yet others have been provided by various sources like the Taxpayers Association, the Chamber of Commerce and the Building Industry Association.#

The chart below is not presented as an authoritative accounting of those needs, but as a tool to begin the more complicated discussions on how this region and the City of San Diego in particular, are going to deal with a facility shortfall of major proportions.

| <u>Infrastructure Need</u> | <u>Estimated Cost</u> | <u>Identified Funding</u> | <u>Shortfall in Funding</u> |
|----------------------------|-----------------------|---------------------------|-----------------------------|
| Urbanized Communities* | | | |
| Transportation | \$1,744,168,715 | \$ 705,431,580 | \$1,077,459,446 |
| Library | 142,708,002 | 23,049,030 | 119,658,972 |
| Park & Rec | 884,974,939 | 26,879,487 | 858,095,452 |
| Fire Stations | 61,720,416 | 0 | 61,720,416 |
| Flood Control | 122,700,614 | 108,000,000 | 14,700,614 |
| Police Stations | ? | ? | ? |
| Subtotal | | | <u>\$2,131,634,900</u> |
| Transportation Needs** | | | |
| Highway Projects | 10,300,000,000 | 5,300,000,000 | 5,000,000,000 |
| Transit Projects | | | |
| Existing Plan | 9,900,000,000 | 7,900,000,000 | 2,000,000,000 |
| Transit First Plan | 6,800,000,000 | 0 | 6,800,000,000 |
| Local Streets & Roads | 2,000,000,000 | 0 | <u>2,000,000,000</u> |
| Subtotal | | | <u>15,800,000,000</u> |
| Housing Goals*** | \$1,828,062,470 | 457,830,000 | <u>1,370,232,470</u> |
| Subtotal this page | | | <u>19,301,867,370</u> |

#See Appendix 15 for more information

| Infrastructure Need | Estimated Cost | Identified Funding | Shortfall in Funding |
|-----------------------------------|---|--------------------|--------------------------------|
| Subtotal previous page | | | \$ <u>19,301,867,330</u> |
| Environmental Needs+ | | | |
| MSCP & MHCP | 2,000,000,000 | 0 | 2,000,000,000 |
| MSCP Maintenance | 400,000,000 | 0 | 400,000,000 |
| Storm Water Permit | 560,000,000 | 60,000,000 | 500,000,000 |
| Storm Water++ | 143,000,000 | 0 | <u>143,000,000</u> |
| Subtotal | | | <u>3,043,000,000</u> |
| Water Needs++ | | | |
| Water | 6%/year for the next 5 years | | |
| Wastewater | 7.5%/yr for 3 yrs, plus 6.5% for one year, plus 5%/yr for 4 years | | |
| Hospital Needs+++ | | | |
| AB 1953 Seismic Upgrades | 1,351,000,000 | 0 | <u>1,351,000,000</u> |
| Information Technology Needs++ | | | |
| IT needs, emrg com sys | 170,000,000 | 0 | <u>170,000,000</u> |
| Subtotal this page | | | \$ <u>4,564,000,000</u> |
| Total infrastructure Needs | | | <u>\$23,865,867,370</u> |

- * Provided by the City of San Diego, Urbanized Communities only
- ** Provided by SANDAG – regional needs, double counting within City of San Diego?
- *** See Section 2 of this Finance Subcommittee report (amount shown is for 10 years)
- + See Land Net Assumptions, needs to be updated for Storm Water mitigation costs
- ++ See Blue Ribbon Committee on City Finances Report, February 2002
- +++ Estimated cost to retrofit the top 19 hospitals (5,404 beds) in San Diego at \$250k/bed

Some costs on this chart may not be deemed to be only “City of San Diego” costs. Arguably, many of the costs shown in the Transportation Needs are costs for the regional transportation system and not solely attributable to the City of San Diego. These costs total \$15.8 billion. The Hospital Needs of \$1.3 billion dollars may not be a requirement for the City Council of San Diego to deal with today. But, no matter whose responsibility these costs are deemed to be, the fact remains the same, the citizens of the City of San Diego are going to be asked to pay their fair share. These “other needs” cannot be put aside when dealing with new revenue sources. The impact for the provision of revenues to pay these costs will be felt by the same people asked to bear the remainder of the costs noted, **\$6.7 Billion.**

If the chart was reorganized to outline only the costs that must be dealt with at this time by the City of San Diego, it would look more like this:

| Infrastructure Need | Estimated Cost | Identified Funding | Shortfall in Funding |
|--------------------------------|---|--------------------|------------------------|
| Urbanized Communities* | | | |
| Transportation | \$1,744,168,715 | \$ 705,431,580 | \$1,077,459,446 |
| Library | 142,708,002 | 23,049,030 | 119,658,972 |
| Park & Rec | 884,974,939 | 26,879,487 | 858,095,452 |
| Fire Stations | 61,720,416 | 0 | 61,720,416 |
| Flood Control | 122,700,614 | 108,000,000 | 14,700,614 |
| Police Stations | ? | ? | ? |
| Subtotal | | | <u>\$2,170,634,900</u> |
| Housing Goals*** | \$1,828,062,470 | 457,830,000 | <u>1,328,232,470</u> |
| Environmental Needs+ | | | |
| MSCP & MHCP | 2,000,000,000 | 0 | 2,000,000,000 |
| MSCP Maintenance | 400,000,000 | 0 | 400,000,000 |
| Storm Water Permit | 560,000,000 | 60,000,000 | 500,000,000 |
| Storm Water++ | 143,000,000 | 0 | <u>143,000,000</u> |
| Subtotal | | | <u>3,043,000,000</u> |
| Water Needs++ | | | |
| Water | 6%/year for the next 5 years | | |
| Wastewater | 7.5%/yr for 3 yrs, plus 6.5% for one year, plus 5%/yr for 4 years | | |
| Information Technology Needs++ | | | |
| IT needs, emrg com sys | 170,000,000 | 0 | <u>170,000,000</u> |
| Total | | | <u>\$6,714,867,370</u> |

- * Provided by the City of San Diego, Urbanized Communities only
- ** Provided by SANDAG – regional needs, double counting within City of San Diego?
- *** See Section 2 of this Finance Subcommittee report (amount shown is for 10 years)
- + See Land Net Assumptions, needs to be updated for Storm Water mitigation costs
- ++ See Blue Ribbon Committee on City Finances Report, February 2002
- +++ Estimated cost to retrofit the top 19 hospitals (5,404 beds) in San Diego at \$250k/bed

How much of the Urbanized Communities Transportation needs could be covered by an extension of the TransNet Half Cent Sales Tax? How much of the Library needs will be covered by the City's recently announced Library funding program? How much of the MSCP & MHCP land acquisition costs will be covered by dedications or statewide bond funds?

All of these questions remain unanswered at this time. Further investigation into these questions are needed before a definitive answer can be provided. This investigation was beyond the direction to the Task Force and would require a great deal of additional time and energy. The facts though remain the same: the City of San Diego is in great need for the development of new revenue sources to provide for its foreseeable financial needs.

Linking revenue sources to infrastructure needs is a difficult task at best. Too many questions remain unanswered at this time to give an accurate depiction of the costs for each type of infrastructure need and the revenue source(s) that should be used to cover the costs. In generality, the Subcommittee proposes:

1. Regional Transportation needs should be addressed through the extension of the TransNet Half Cent Sales Tax. Some local road money is also available through this source and should be first applied to the roadway needs of the Urbanized Communities willing to accept additional development and density.
2. Library needs should be met through the new Library Funding program adopted by the City Council on _____, 2002. Funding priority from these available funds should be used to provide new or refurbished library facilities in Urbanized Communities willing to accept additional development and density.
3. MSCP & MHCP preserve lands should be purchased first and foremost through State Park, Open Space and Water Bonds. These funds have been approved by the California voters and San Diego needs to achieve its Fair Share of these funds to pay for these private lands.
4. Park and Rec, Fire Stations and Flood Control facilities need to be given priority from the funding sources listed in Recommendation 5a. Funding priority from these new funds should be used to provide new or refurbished facilities in Urbanized Communities willing to accept additional development and density.
5. IT needs, Storm Water needs and Environmental Lands Maintenance needs should be given second priority from the funds listed in Recommendation 5a. While these needs are equal in many ways to the needs of other public facilities, these needs will create minor impacts within the Urbanized Communities as compared to the other facility needs identified above.

The principal revenue sources available to meet these needs, that are not described above, are shown on the following chart:

| <u>Revenue Sources</u> | <u>Dollars Raised Annually</u> |
|--|------------------------------------|
| 1. Repeal the People's Ordinance of 1919 | \$39,000,000 |
| 2. A \$15/customer/month Utility Users Tax | 18,500,000 |
| 3. A Half Cent increase to the Sales Tax | 97,000,000 |
| 4. A \$1.00 per Passenger Landing Fee | 10,000,000 |
| 5. A 10% Sports and Entertainment Ticket Tax | 9,800,000 |
| 6. A 2 Hour Increase on Parking Meters | 1,100,000 |
| 7. Double the Storm Drain Fee | 6,000,000 |
| 8. A Parcel Tax of \$10/parcel/month | \$52,080,000 |
| <u>Total</u> | <u>\$232,480,000</u> |

The Subcommittee believes these revenue sources will help fill the gap in the \$5.3 billion need for infrastructure and recommends the City investigate each of these sources further. We also realize there may be some overlap between the Recommendations for funding Local Sources for Affordable Housing and Local Sources for Infrastructure, namely the use of Parcel Taxes and the Real Estate Transfer Tax. The Subcommittee believes this conflict can only be dealt with after a selection of Local Sources for Affordable Housing is finalized.

The Finance Subcommittee did look briefly at other opportunities when reviewing the new revenue sources it developed on the Source Spread Sheet (see pages 17 and 18). More information on this discussion is shown on the Spread Sheet and in Appendix 14.

Section 5: Conclusions

The Finance Subcommittee believes the time has come for action by the City Council on the pressing issues of Affordable Housing and Public Infrastructure. This Report, and its associated Recommendations are one approach to these issues. The need for further investigation, public input and comment, and general education on the issues and the potential solutions is obvious. San Diego faces a crisis of infrastructure and housing affordability that threatens the quality of life all her citizens have come to expect. Special attention will be required to coordinate the funds raised for infrastructure, with the responsibilities of the City to meet the needs of Urbanized Communities existing deficits in public facilities. In addition, the future growth of San Diego is not going to come from Master Planned Communities involved in Greenfield Development. The growth is going to come from infill projects and selected redevelopment projects within the Urbanized Communities. This growth and the relief from related facility deficits, need to be planned and implemented in harmony with each other. Failure to heed this linkage of the construction of public facilities, in conjunction with new development or redevelopment, will result greater citizen dissatisfaction with local government.

The Finance Subcommittee respectfully submits these Recommendations and this Report to the Affordable Housing Task Force for its review and consideration.

Appendix:

1. Memo from the City Manager, dated October 10, 2002 (Report No. 02-234)
Memo from Councilmember Donna Frye, dated September 20, 2002
Memo from Councilmember Donna Frye, dated January 15, 2003
Mission and Scope of Work for the Affordable Housing Task Force
Goals of the Finance Subcommittee of the AHTF, dated January 6, 2003
2. Letter to Jack McGrory, Chairman of the AHTF, dated March 31, 2003 from the San Diego Housing Federation, re: Recommendations for the Task Force's consideration.
3. Affordable Housing Task Force Finance Recommendations Regarding the Housing Need and Housing Goal
Chart by Finance Subcommittee on the Needs, Goals and Annual Gap Analysis, dated April 18, 2003
4. Representative Proforma summaries for alternative project financings, prepared by Jack Farris, Housing Finance & Development Manager for the San Diego Housing Commission, dated March 18, 2003
5. Email from Charlene Gabriel, Facilities Financing Manager for the San Diego Planning Department regarding the Census 2000 analysis of San Diego's housing stock, dated April 9, 2003
6. Page 2 of the Report on Inclusionary Zoning, prepared by the San Diego Housing Commission, dated April 24, 2003
7. Draft City Council Policy No. 600-27, dated March 25, 2003, Affordable/In-Fill Housing Expedite Program
8. Overview of SB 353 (Ducheny), California Housing Finance Agency, not dated
Copy of SB 353 (Ducheny), dated April 3, 2003
9. Article from the San Diego Daily Transcript, dated December 16, 2002, re: New Prevailing Wage Laws Make Building More Expensive, by Kevin Christensen
Draft copy of Assembly Bill 1344, Garcia, dated February 21, 2003, re: Prevailing Wage
10. Spread sheet from California Housing Partnership Corporation, not dated, re: TCAC Application Analysis, 2003 Round 1
Chart from Jack Farris, not dated, re: CDLAC funding and the FUA total Inclusionary Housing units to be produced
Memo from Jahi Akobundo, Finance Specialist at the San Diego Housing Commission, dated April 21, 2003, re: Approved & Potential Affordable Housing in NCFUA
Emails for Jack Farris and Susan Tinsky, San Diego Housing Commission, dated April 25, 2003, re: clarifying number of units created by proposed Inclusionary Zoning Ordinance and the 20% Inclusionary requirement in the FUA, and the use of the In-lieu fee collected by the proposed ordinance

11. Chart by Finance Subcommittee, dated April 18, 2003, re: Federal, State and Local Sources of Annual Funds for affordable housing
12. Chart from Hank Cunningham, Director of Community and Economic Development, not dated, re: Tax Increment Receipts and Estimates by Project Area for San Diego Redevelopment Agencies
Memo, not dated, re: Redevelopment Agency Tax Set-Aside for Housing
13. Memo, from Bruce Herring, Deputy City Manager, dated March 15, 2002, re: FY 2003 Community Development Block Grant (CDBG) Program
Chart, from Hank Cunningham, not dated, re: City of San Diego Community Development Block Grant FY2003
14. Email from Jack Harris, dated April 3, 2003, re: Housing Trust Fund history of Linkage Fee revenue collection, Home Funds received and Inclusionary Zoning Fee in-lieu projections.
Memo from Susan Tinsky, not dated, re: Inclusionary Housing In-Lieu Fee Assumptions
15. Chart by Finance Subcommittee, dated April 16, 2003, re: San Diego City / County Funding Sources Identified
Manager's Report No. 03-061 (Revised), dated March 28, 2003, re: Opportunities for the expansion of current revenue
Chart provide by Hank Cunningham, dated Revised 1/03, re: Parking Meter District (PMD) Revenue Allocations
City of San Diego Sales Tax Digest Summary, Fourth Quarter Collection of Third Quarter Sales, 8-14-02 thru 11-14-02
Email from Mike Jenkins, Assistant to the Director of Community and Economic Development, dated April 15, 2003, re: various revenue source functions and factors
Memorandum of Law, dated February 4, 1992, from City Attorney, re: Proposed Imposition of Surcharge on all Development and Land Use Permits
Report from Charlene Gabriel, not dated, re: Procedure to Impose "Property Related Fees" Defines by Proposition 218
Reference Material for Finance Committee – Citizens' Task Force on Chargers Issues, dated February 10, 2003, re: Revenue Categories and Options to Increase
Email from Mike Jenkins, dated April 22, 2003, re: Number of legal parcels in the City of San Diego
16. Draft Chart by San Diego Regional Chamber of Commerce, dated March 14, 2001, re: Infrastructure Needs
Charts from City of San Diego, not dated, re: Urbanized Communities Facilities Summary Listing
Chart from San Diego Regional Chamber of Commerce, not dated, re: Future Needs Assessment for Transportation Projects
Selected pages from the Blue Ribbon Committee on City Finances Report, dated February 2002, re: Assess the Fiscal Condition of the City of San Diego
Chart from San Diego Regional Chamber of Commerce, not dated, re: Seismic – AB 1953, Estimated Costs of Hospital Retrofit