Good Neighbors
San Diego
Housing Commission

REPORT

ITEM 23

TO: The Chair and Members of the Planning Commission

DATE ISSUED: May 4, 2005

REPORT NO.: PC-05-091
For the Agenda of May 12, 2005

SUBJECT: Update to Housing Impact Fees on Commercial Development

SUMMARY

Issue: Should the Housing Commission recommend adjustments to the Housing Impact Fees for Commercial Development in response to updated information analyzed in a recent Nexus Study and extensive discussions with industry groups?

Recommendation: Direct staff to prepare an ordinance amending the Housing Impact Fees on Commercial Development (San Diego Municipal Code Chapter 9 Article 8 Division 6), as further described herein, including:

1. Use the most recent nexus study data in preparing amendments;
2. Adjust building type categories used in the fee schedule and provide that buildings be assessed for the predominant use so long as the primary use constitutes at least 75% of the proposed development;
3. Focus on low income housing needs for people earning less than 80% of Area Median Income;
4. Base adjustments to the fee schedule on mitigating 10% of actual housing impacts as further adjusted below; adopt the fee schedule for all uses as reflected in Attachment 6; apply an annual adjustment factor, based on a recognized index, and mandate the fee amounts be reviewed at least every ten years;
5. Allow the current housing impact fee exemptions in San Diego's two enterprise zones to expire in 2006; allow case-by-case exemptions for offices or manufacturing in redevelopment project areas. When City Council Policy 900-12 is updated, incorporate criteria for case-by-case exemptions for manufacturing and research and development, similar to current policy, and provide an opportunity for Housing Commission input on proposed amendments to the policy. Exempt in-patient acute care hospital development.
6. Continue to authorize the Housing Commission to approve variances for applicants if they meet the specified findings.

Fiscal Impact: Depending on how the fee structure is amended, additional revenues of $3M to $10M more than the FY04 amount would accrue to the Housing Trust Fund. Within the first year, the recommended fee schedule is estimated to generate 60% more than currently is collected in the Housing Trust Fund. By year three, the fees collected in the Housing Trust Fund are expected to double current levels to produce approximately $5M per year.

Affordable Housing Impact: Any additional revenues would be deposited into the Housing Trust Fund and would be used to produce new affordable housing opportunities for targeted households. The recommended action would focus assistance on low income people.

BACKGROUND

In December 2002, the San Diego City Manager initiated an Affordable Housing Task Force made up of 20 experts from a wide variety of fields. The Task Force was charged with looking at San Diego's affordable housing crisis in a comprehensive manner and making recommendations for specific actions that the City Council could take to address the City's housing issues. Among its recommendations, published in June 2003, is a proposed doubling of the Housing Impact Fee on Commercial Development to restore it to its original level. On October 1, 2003, the City Council's Land Use and Housing Committee considered the recommendation and directed staff to prepare an update to the 1989 Housing Impact Fee Nexus Study in anticipation of considering an adjustment to the fee.

In response to the Land Use and Housing Committee direction, the San Diego Housing Commission retained the consulting services of Keyser Marston Associates, Inc. (KMA) to perform an update to the Nexus Study. The Consultant has completed a comprehensive update to the Nexus Analysis, which is included as Attachment 1.

During discussions with affected parties, business leaders acknowledged the connection between job creation and housing, and are concerned that the City have sufficient resources to address the housing crisis. Business representatives view the Housing Impact Fee as one legitimate resource that should be balanced with its effects on development. Most urge that the fee be considered only one of several needed revenue sources for housing and pledge their cooperation in seeking other funding mechanisms to augment the Housing Impact Fee.

DISCUSSION

This report will provide background on the City's Housing Impact Fee, review the process for updating the Nexus Study and discuss various policy issues to consider in the Commission's deliberations.

Housing Impact Fee

Housing Impact Fees, otherwise known as linkage fees, are a means to mitigate the increased need for more affordable housing due to employment growth. The relationship between non-residential construction and the need for housing is widely accepted. Non-residential development typically results in new jobs. The additional jobs create a need for additional employee housing with the highest need being for housing that is affordable to lower income groups. Housing Impact Fees are assessed on non-residential development to mitigate for this increased need for affordable housing.

Cities throughout the United States have established Housing Impact Fees on non-residential development to mitigate the increased need for affordable housing. The State of California, in particular, has numerous jurisdictions with commercial linkage fees. A survey of select California jurisdiction's linkage fee programs is found in Attachment 2. The survey shows that San Diego's fees are substantially lower than most comparable cities.

In California, fees on development are subject to two overlapping sets of legal requirements, constitutional requirements of nexus and "rough proportionality" under the U.S. Supreme Court cases of Nollan v. California Coastal Commission (1987) 483 U.S. 825 and Dolan v. City of Tigard (1994) 512 U.S. 374, and California's statutory requirements as embodied in AB 1600. The nexus analysis serves to establish the necessary legal relationships.

The City of San Diego's linkage fee was initially established through a nexus study performed in 1989. At that time, the fee levels were set at an amount equal to approximately 10% of the impact on low income residents earning below 80% Area Median Income (AMI) as shown by the study. In 1996, San Diego's linkage fee levels were cut in half. As a result, the current fee levels, which range from $.27-$1.06/SF based on development type, are substantially below the original nexus amounts.

The City of San Diego Housing Impact Fees on Commercial Development Ordinance ("Ordinance") is found at Chapter 9 Article 8 Division 6 of the City's Municipal Code. The current fee schedule is:

Type of Use	Fee Per Square Foot
Warehouse	$0.27
Manufacturing	$0.64
Retail	$0.64
Hotel	$0.64
Research and Development	$0.80
Office	$1.06

Linkage fees are calculated by the City's Facilities Financing Department, collected by the Development Services Department and deposited into the City of San Diego's Housing Trust Fund, which is administered by the San Diego Housing Commission ("Commission"). Annually, the City Council adopts a plan to allocate Housing Trust Fund monies to a variety of eligible uses, including rental housing development and special needs housing. At each fiscal year end, an Annual Report is prepared to describe how the Housing Trust Fund monies were actually used.

Currently, linkage fees are the primary local source of revenue for the Housing Trust Fund. Over the years, some Transient Occupancy Tax (TOT) dollars, land sale proceeds and Redevelopment Agency tax increment housing set-aside funds have been allocated to the Fund, and repayments of certain property rehabilitation loans have also contributed a small amount to the fund. Recently, the

City earned a $2 million commitment from the State to match the City's Housing Trust Fund revenues.

Housing Trust Fund monies are leveraged against outside affordable housing revenue sources, typically at a ratio of ten dollars of outside money for each dollar from the Housing Trust Fund money. Since the linkage fee was adopted in 1990, it has produced a total of approximately $38 million. The revenues have been leveraged to assist in the development, rehabilitation, or purchase of approximately 7,000 below-market rate units; and to support approximately 455 transitional housing beds annually. A summary of historical revenues is included as Attachment 3.

Update to the Housing Impact Fee Nexus Study

Although linkage fees could be adjusted based on the 1989 nexus analysis, an updated Housing Impact Fee Nexus Study provides more accurate and timely data on current market conditions. Trends in commercial development demand and the type of employment associated with commercial development have changed in the 15 years since the previous study was prepared. As a result of having an updated nexus study, decision-makers will be able to make better-informed decisions regarding potential adjustments to the Housing Impact Fees based on justifiable impacts by new employment development on the housing market .

Preparation of a nexus analysis entails a number of complicated steps, which are outlined in detail in the study (Attachment 1). However, the process can be summarized as follows. First, the nexus analysis provides estimates of the number of employees per square foot that work in identified building types. This number is also known as "employment density." These estimates are based on average employment densities for typical activities. Once total employment density is established, the nexus analysis then identifies the proportion of employees that are associated with households of varying income levels by analyzing published data on the occupation of employees and their current compensation levels in San Diego In every nonresidential building, a certain percentage of the employees will be from lower income households. The percent will vary depending on the type of use. For example, office buildings have fewer workers from very low-income households than retail or hotelier operations.

The calculated density and proportion of lower income employees is ultimately translated into the amount of demand produced for affordable housing by each building type. This demand is used to calculate the Housing Impact Fees by considering the gap that exists in the market between what households at the various income levels can afford for housing and the cost of market-rate housing. It is evident in the new nexus study that assumptions regarding employment patterns, wage rates and housing costs have changed substantially since 1989.

As can be ascertained by the preceding description, the analysis makes a number of data assumptions in order to determine the nexus amounts. Wherever assumptions are used, the consultant has chosen conservative data, which would result in lower impacts than is probably the case. Nonetheless, even using conservative assumptions, justified fee amounts are still far above levels that would be practical for adoption.

In addition to simply updating the justifiable Housing Impact Fee levels, the nexus study has been expanded to provide housing demand analysis for a broader range of income levels. The study updated the 1989 data associated with low and very-low income housing needs and also includes the housing needs of households in two additional income ranges: households with incomes between 80% and 120% AMI and households with incomes between 120% and 150% AMI. This expansion is a direct reflection of the increasing housing cost burden that is affecting larger segments of the City's workforce. In providing this broadened analysis, the Nexus Study provides the City Council with increased discretion in using housing impact fee revenues to assist households within these broader income categories if desired.

<u>Recommendation:</u> That the new Nexus Study be used as the basis for updating the Housing Impact Fees.

<u>Alternative:</u> Continue to use the 1989 Nexus Study as a basis for decision making.

Changes to Land Use/ Building Type Categories

The Nexus Analysis was prepared using a few different building types than were used in the 1989 study. As discussed above, market conditions have changed significantly since the original study was prepared. In updating the analysis, it was questionable as to whether the 1989 building definitions still appropriately reflect the market. Changes in the market have resulted in increasing difficultly in the administration of the ordinance due to blurring distinctions between certain designated uses.

In consultation with industry representative and various City departments including Community and Economic Development, Development Services and Planning staff, Housing Commission staff worked with KMA to reclassify and redefine the building types. In addition, during the decade and a half since the linkage fee program was initiated a number of issues have been encountered in the administration of the Housing Impact Fee. Many of these issues could be addressed through refinements in building type classifications.

The updated study expanded the number of building types from six to seven and shifted how some building uses would be categorized within the building types. Major changes include consideration of research and development uses as part of manufacturing, and creating separate categories for education and medical uses. A listing of current and proposed building types is depicted in the following graph:

Current Land Use Categories	Proposed Land Use Categories
Office	Office

Retail	Retail
Hotel	Hotel
Manufacturing	Manufacturing
Warehouse	Warehouse
Research and Development	
	Medical
	Education

The Table above shows the proposed seven land use categories as: office, retail/entertainment, hotel, manufacturing, warehouse/storage, medical and educational. The 1989 nexus analysis was developed using six use categories: office, hotel, research and development, retail, manufacturing and warehouse.

The various City departmental representatives met with KMA to consider new land use/building type categories and resolve issues identified with the current classifications. Reclassifying the building types was undertaken to achieve a number of goals, including:

- Increased fairness, due to solid basis of classification assignment;
- Increased ease of administration;
- Better guidance to the administrators by reducing the need for independent judgments where additional criteria would be helpful;
- Better internal consistency with other areas of the Municipal Code;
- Closer compatibility of the housing fees and other fees, particularly traffic for which employment density is also key (as opposed to trip generation due to customers, etc.); and
- Better classification of entire building rather than components of buildings.

In addition to the development of new land use categories to achieve the above-referenced objectives, staff also recommends revising the methodology to calculate the square footage assessed within a particular building type. Currently if a 100,000 square foot building plan is submitted to the City with a proposal of 75,000 square feet of the building to serve as warehouse and 25,000 square feet as office space, the current calculation and fee assessment procedures would measure the size of each use and calculate the warehouse portion at $.27/SF and the remaining office space would be calculated at $1.06/SF.

In an effort to simplify the calculation process and provide developers with a clear understanding of what fee their project will be charged, staff is recommending a methodology that would allow for the predominant land use's fee structure be used for the entire building as long as the predominant use is at least 75% of the building's total square footage. Therefore, in the example above, the entire building would be charged the warehouse fee rather than a proportional assessment based upon actual square foot usage.

<u>Recommendation:</u> Approve the new building type categories and provide that buildings be assessed for the predominant use so long as the primary use constitutes at least 75% of the proposed development.

Alternative: Retain the current categories and continue to calculate the fee based on the square footage of the various component uses.

Whom to Serve

Over the past 15 years, the San Diego housing and job markets have changed quite dramatically. No longer is San Diego heavily dependent upon the aerospace and military industries which in turn relied heavily upon federal and military spending. Today San Diego's economy is more diverse as it has developed and recruited more jobs in the high-tech manufacturing and biotech research fields. Visitor industry jobs have also grown. Furthermore, wage profiles within use categories and housing prices have changed markedly since the 1989 Nexus Study was prepared.

Therefore, using the new KMA Nexus Study as a background, the City's policy must first identify which income level is to be the focus of a housing impact mitigation program. As stated above, the newer nexus study not only looks at the housing impact for low income families earning below 80% AMI, it also considers the 120% and 150% AMI levels, often referred to as "workforce housing." Many home buying or rental assistance programs have been developed to assist low income families. Some redevelopment resources can address housing needs up to 120% AMI. But there are few if any programs to help meet workforce housing needs.

Because the linkage fee is an impact fee, the nexus amount is derived from specific economic analysis for particular income groups (e.g., the housing impact on low income households). Fees are then collected to mitigate the documented impact and can only be used for that purpose. So if the fee is established to mitigate housing impacts for low income people, then only low income persons can benefit from the fee revenue. If the fee were to be established to mitigate housing impacts for workforce households, then revenues could be used for programs to assist this underserved group as well.

However, if more income groups than the current low income beneficiaries are to benefit from linkage fee revenues, the dollar amount of the fee would have to be large enough to provide additional assistance to more people. Otherwise it would dilute assistance for low income groups currently being served. A large fee is unrealistic. Further, there was little policy support for expanding the Housing Trust Fund to create new workforce housing programs expressed in conversations with business and advocacy groups. Attachment 4 illustrates housing impacts at three income levels.

Recommendation: Continue to assess the housing impact of new commercial development on low income households (80% AMI) and use proceeds to assist this group.

Alternative: Base the assessment of the housing impact on the workforce earning up to 150% AMI and ensure that the first $4 million collected be dedicated to low income housing programs, with funds in excess of $4 million to be equally divided between those earning less than 80% AMI and those earning between 80% and 150% AMI.

Mitigation Level

After deciding at which AMI level to assess the housing impacts, the next decision is how much of the impact to mitigate with the fee. Policy makers may establish fees up to the maximum justifiable amounts (100% of the nexus study impact). This is not practical for two reasons. It offers no “safe harbor” protection against potential challenges to the nexus study and it produces a fee amount so significant as to discourage new development altogether.

Policy makers could set the fee for all building types in the same proportion, such as 20% of the impact across all uses, or may set the fee for each building type independently, weighing policy considerations and market sensitivity for each type. Attachment 4 illustrates some different mitigation levels and AMI levels, and shows the amount of revenue the City could have expected to generate for each combination, based upon the square footage of building permits issued in the City during the 2003 calendar year.

In 1989, City Council determined that generally 10 percent of the nexus amount in each category was appropriate for housing impact fees. Adjustments were made to this general fee structure so that it yielded a targeted dollar amount, anticipated to be approximately $12 million annually. In 1996, a task force empanelled by LU&H recommended that at least $15 million per year be generated by the linkage fee. However, in response to a business recession, City Council instead cut the fees in half. Since then, non-residential development has been at a modest pace and exemptions have markedly increased so that annually new revenues from linkage fees averaged less than $2 million over the last three fiscal years:

	FY02	FY03	FY04
Revenues Collected	$2.43M	$1.6M	$1.44M

At the same time, development costs have risen and eroded the purchasing power of the Housing Trust Fund. Today, the same amount of housing opportunities as recommended by the 1996 task force would require substantially more than their recommended $15 million.

If a new fee schedule is again based on mitigating 10 percent of housing impacts (Column 3 on Attachment 4), two uses would experience significantly large increases over current fees, and so warrant additional discussion. Business representatives expressed concern over the large jump in retail and hotel rates and the relative impact on businesses of different scales.

Retail: The current fee for retail is $0.64/SF and the proposed fee is $3.75/SF. It is recommended that the fee be phased in over a three year period in order to allow for the industry to better adjust to the new fee level. In addition, it is further recommended that smaller retail establishments that have greater risk and cost sensitivity (e.g. new restaurants, neighborhood commercial proprietors) be segregated from the larger establishments (e.g. big-box developments). Specifically, it is recommended that three tiers of retail be established: projects of 10,000 square feet and less; projects of 10,001-20,000 square feet; and projects greater than 20,001 square feet. Thus, the retail fee schedule would be as follows:

Square Footage	Year 1	Year 2	Year 3

< 10,000	$1.28	$1.28	$1.28
10,001 – 20,000	$1.28	$1.89	$2.51
> 20,000	$1.67	$2.71	$3.75

Hotel: Similarly, the linkage fee for hotels is proposed to increase from $0.64/SF to $2.95/SF. It is recommended that this fee also be phased-in over a three year period and distinguish smaller and larger uses as follows:

Size of Hotel	Year 1	Year 2	Year 3
< 500 rooms	$1.82	$1.87	$1.92
> 500 rooms	$1.90	$2.42	$2.95

In both cases, additions to existing facilities would be assigned to a tier based upon the cumulative size of the existing structure with any addition, yet only the additional square footage will be charged the fee. For example, if an existing 400 room hotel were to add an additional 200 rooms, the overall project would then be 600 rooms and subject to the higher fee level, but only the 200 new rooms would be assessed the fee. (Note that the Chamber of Commerce recommends capping the hotel rate at $2.60 rather than $2.95 as recommended by staff.)

Recommendation: Base the impact fees on 10% of the housing impact on low income households. Adopt the fee schedule shown on Attachment 6 so that Retail and Hotel rates would phase in over three years and be assessed on the project's size. This would generate approximately $5.8 million in year three. It is also recommended that an annual adjustment factor be applied, based on a recognized index, and that the fee amounts be reviewed at least every ten years.

Alternative: Several alternatives are available, including:

1. Selection of another column on Attachment 4 and apply that level of fee across the board to the uses;
2. Columns could be combined; for example, retail and hotels could be assessed based on column 3 (10% at 80% AMI) with the remainder of the uses assessed pursuant to column 4 (15% at 80% AMI);
3. Adjust the phase-in timeframe or the proposed tiers (e.g. divide the Hotel category into three tiers as with Retail);
4. The current fee schedule could be doubled as recommended by the Affordable Housing Task Force.

Special Treatment of Certain Geographic Areas or Certain Industries

Many cities with linkage fee programs allow for differential treatment in specific areas such as redevelopment areas, enterprise zones or for specific businesses. The rationale is that these areas or businesses are designated as needing investment and therefore, special accommodations are made to encourage new economic development. Likewise, the City may desire to attract certain uses that provide economic benefits. In general, blanket exemptions for geographic areas or specific uses are not recommended if strong investment activity is already occurring.

Enterprise Zones

Currently, the Municipal Code allows for an exemption of the housing impact fee to be granted administratively for new business developments in San Diego's two enterprise zones. Enterprise zones are authorized by State law and provide various State income tax incentives to promote job creation for low income residents within the zones. Local governments must apply to the State for designation of a zone, and must provide matching local incentives. In San Diego's case an exemption from various fees including the linkage fee have been appropriate.

The Southeast/Barrio Logan Enterprise Zone, established by the City Council in 1986 and later renamed the Metro Zone, encompasses most of downtown from Little Italy eastward to roughly the SR-94 corridor. The South Bay Enterprise Zone, encompassing Otay Mesa and San Ysidro (plus portions of Chula Vista and National City, which are separate jurisdictions and are not subject to the linkage fee), was designated in 1991. The South Bay Zone will expire in January, 2006, and the Metro Zone will expire in October, 2006.

Between 1997 and 2003 a total of 5,443,905 square feet of Office, Retail and Manufacturing appear to have been exempted from the linkage fee within the enterprise zones. Had these fees been assessed, such floor area figures would have generated an additional $3.6M to the Housing Trust Fund. Most of the exemptions were provided in the Metro Zone in the downtown redevelopment areas. These figures do not include hotels exempted within the downtown areas during that six year period.

Each of San Diego's enterprise zones will expire within the next year and a half, absent further State legislation. If the City Council were to prematurely remove the blanket Housing Impact Fee exemption for the enterprise zones, the City Council could be in violation of the terms of the State designation. Given the short period of time remaining on the designations, it is recommended that the current exemptions continue for the two zones until the designations expire. If a State law is adopted giving San Diego the option to extend the South Bay Zone an additional five years, then exemptions should be authorized only on a case-by-case basis subject to the proposed development offering significant economic development opportunities (e.g. manufacturing jobs that provide living wages for employees).

Other Critical Issues

In addition to the linkage fee exemption in the two enterprise zones, exemptions may also be provided on a case-by-case basis as determined by the City Council. City Council Policy 900-12 (Attachment 5) sets out various criteria under which incentives may be provided for business developments if the City Council determines that such projects benefit the public. These public benefits include the development of a targeted industry (e.g., R&D, biotechnology), the creation of quality jobs, or the development of a project in a Redevelopment Project Area that would otherwise require a subsidy paid by the Redevelopment Agency. In each case, a formal written agreement with the developer is negotiated and approved by the City Council, with the public benefits specified.

In redevelopment project areas, some commercial uses are key to the area's success and produce living wage jobs. Office development downtown is one such use; manufacturing establishments are another example. It is recommended that developers planning such key office or manufacturing projects - where the agency enters into a development agreement and would otherwise subsidize the fee - be exempted on a case-by-case basis.

Outside of redevelopment areas, the City's Economic Development staff indicates that Council has exercised the authority sparingly. In recent cases, the Council required developers to pay the linkage fee but provided an incentive by reimbursing the fee out of incremental increases in property taxes subsequently earned on the project. City staff indicated that it plans to recommend updates to Council Policy 900-12 soon to reflect changed economic conditions. It is recommended that, when Council Policy 900-12 is updated, this recent policy of off-setting the Housing Impact Fee be retained and the Housing Commission be given the opportunity to review and comment on any modifications.

There is concern that some Research and Development buildings look and function much like a typical office building. For example, computer programmers may sit at workstations in cubicles or offices rather than in open labs like some other researchers. The Chamber of Commerce suggested that all high-tech, biotech or other R&D functions be encouraged to locate in the City by assessing the lower manufacturing fee of $1.18/SF. In subsequent discussions with the City's Economic Development Department it was suggested that the new fee be waived altogether for R&D uses that have the likelihood of manufacturing on-site where San Diego will benefit from the jobs created by such ventures. Housing Commission staff recommends a blend of these two positions. It is recommended that an R&D use that resembles an office facility be charged the lower manufacturing fee of $1.18/SF if the Economic Development Department determines there is a high likelihood that the ultimate product will be manufactured within the City of San Diego. As noted above, it might be further recommended by City staff that the fee be waived in a redevelopment area or repaid through a property tax reimbursement. Such determinations would be codified in agreements pursuant to Council Policy 900-12.

Finally, it was emphasized that the hospital industry is under severe financial constraints to comply with State law regarding earthquake retrofitting of their facilities. Because of the extremely high expense to retrofit, some hospitals may have to cease certain functions or build new facilities. It is suggested that all newly constructed in-patient acute care facilities be exempted from the fee altogether.

<u>Recommendation:</u> Allow the current linkage fee exemptions in San Diego's two enterprise zones to expire; allow case-by-case exemptions for office or manufacturing in redevelopment project areas. When Council Policy 900-12 is updated, it should incorporate criteria and conditions for providing limited linkage fee exemptions for manufacturing or R&D, on a case by case basis, similar to the current Policy, and the Housing Commission should be given the opportunity to review and comment on any modifications. Finally, in-patient acute care hospitals should be exempted.

<u>Alternative:</u> Three alternatives could be considered:

1. Retain the Housing Impact Fee exemption in the South Bay Enterprise Zone if its designation is authorized to be extended by State law.
2. Adopt blanket exemptions (rather than case-by-case) from Housing Impact Fees for certain building types that are likely to create better paying jobs (e.g., manufacturing uses).
3. Do not provide for any exemptions of the Housing Impact Fee.

Variances and Exemptions

The Ordinance delegates authority to the Housing Commission to approve a variance to applicants, which could include a modification or exemption from fee payment, in cases of hardship or "low employee density" (i.e., the proposed project adds few or no jobs). Since the fees' inception, the Commission has approved 52 variances (none for hardship, one for alternate compliance and the remainder due to the low employment density contained in the use).

Recommendation: Continue to authorize the Housing Commission to approve variances for applicants if they meet the specified findings showing financial hardship or if the project is expected to create a low employee density.

CONCLUSION

The Nexus Study provides updated data regarding the nexus between employment in various types of buildings and the resulting housing demand for households that meet the criteria for a number of income categories. A summary of recommendations includes:

1. Use the new nexus study as the basis for updating the housing impact fees.
2. Approve the new building type categories and provide that buildings be assessed for the predominant use so long as the primary use constitutes at least 75% of the proposed development.
3. Continue to assess the housing impact of new commercial development on low income households (80% AMI and lower) and use proceeds to assist this group.
4. Establish the impact fees based on mitigating 10% of the housing impact on low income households. Adopt the fee schedule for all uses as reflected on Attachment 6, phasing-in the increase of the fee for Retail and Hotel over three years until the full amount is reached and assessing smaller projects a lesser fee amount. Apply an annual adjustment factor, based on a recognized index, and review the fee schedule at least every ten years.
5. Continue the current housing impact fee exemptions in San Diego's two enterprise zones until the designations expire in 2006; if a State law is adopted giving San Diego the option to extend the South Bay Zone an additional five years, then any exemptions should be authorized only on a case-by-case basis; allow case-by-case exemptions of office or manufacturing in redevelopment project areas. When Council Policy 900-12 is updated, it should incorporate criteria on providing any linkage fee exemptions, similar to the current Policy, and the Housing Commission should be given the opportunity to review and comment on any modifications.

6. Continue to authorize the Housing Commission to approve variances for applicants if they meet the specified findings showing financial hardship or if the project is expected to create a low employee density.

Amendments to the Municipal Code will be drafted for future consideration to reflect any changes to the current housing impact fee structure that the policy makers may direct. If changes are to be made to the current Housing Impact Fee schedule, a determination will be needed regarding the effective date of those changes. New fees could be implemented on the effective date of an ordinance amending the Code or on a specific future date, such as July 1, 2005.

Respectfully Submitted, Approved By,

Signature on File
With Original Document

D. Todd Philips
Policy Advisor to the President and CEO

Elizabeth C. Morris
President and CEO

ATTACHMENTS:

1. Jobs Housing Impact Fee Analysis (2004 Nexus Study)*
2. Survey of Jobs Housing Linkage Fee Programs
3. Historical Annual Revenue Collected from Linkage Fees
4. Various Fee Assessment Scenarios
5. City Council Policy 900-12
6. Summary of Staff Recommendations Regarding Fee Levels

* The distribution of this attachment is limited due to its length. Copies are available at the Office of the City Clerk, 202 C Street, 2nd Floor and at the Housing Commission Office, 1625 Newton Avenue.