

DATE ISSUED:

REPORT NO.

ATTENTION: Land Use and Housing Committee
Agenda of June 18, 2003

SUBJECT: Affordable Housing Recommendations

SUMMARY

Issue - Should the City Council accept the report of the Affordable Housing Task Force and direct the City Manager to report back in one month with a detailed analysis of each recommendation?

Manager's Recommendation – Accept the report of the Affordable Housing Task Force and direct the City Manager to report back in one month with a detailed analysis of each recommendation.

Other Recommendations - None.

Fiscal Impact – There is no fiscal impact with this action.

BACKGROUND

On August 6, 2002, the San Diego City Council dedicated the day to the topic of affordable housing. As a result of a short supply and rapidly escalating prices and rents for housing, the City Council declared a “State of Emergency Due to Severe Shortage of Affordable Housing in the City of San Diego” on that day. One direction given to the City Manager on this date was to form an Affordable Housing Task Force with the charge that the Task Force return to the City Council within six months of their first meeting to provide recommendations to improve affordable housing options and strategies in the City of San Diego. The Task Force was asked to look at San Diego’s affordable housing crisis in a comprehensive manner and make recommendations for specific actions the City Council can take to address the City’s housing issues.

In December 2002, the City Manager initiated the Affordable Housing Task Force. The Task

Force includes 20 experts from a wide variety of fields representing varied interests and perspectives in the City, including persons representing community organizations and planning boards, housing and environmental advocates, charitable organizations, academics, affordable housing developers, realtors, apartment owners, business and labor. A list of Task Force members can be found in Attachment 1.

The Task Force met on December 10, 2002 and formed four subcommittees to address the following issues:

- Committee 1 - Goals for Housing Production;
- Committee 2 - Development, Regulations, and Incentives;
- Committee 3 - Financing and Revenue; and
- Committee 4 - Homeowners, Renters, and Preservation Issues.

Task Force members attended several public meetings to elicit input on issues and solutions that should be explored by the Task Force. On January 31, 2003, committee members attended the San Diego Housing Commission, on February 20 the Planning Commission and on February 25, the Community Planners Committee. The Task Force also received a significant amount of input from a wide range of sources, including the Apartment Association, the Disabled Access Center, the Tenant's Legal Center and various staff.

DISCUSSION

The Affordable Housing Task Force examined data and analysis from a variety of sources that have attempted to quantify the housing shortage and the unmet need for overall housing supply and affordable housing in the San Diego region. The most recent and comprehensive studies on this topic have been produced by the University of San Diego Real Estate Institute's Professors Alan Gin and Andrew Allen, whose study was commissioned by the Building Industry Association. The Task Force heard presentations from and reviewed reports by Professors Gin and Allen as well as recent housing need estimates from SANDAG and the California Department of Housing and Community Development (HCD).

After reviewing all the available information, the Task Force decided to adopt an estimate of housing need for the next ten years based equally on anticipated population growth and anticipated employment growth as recommended by Professor Allen. The total housing need figure adopted for the 2003-2013 period is 113,696 units, of which 32,275 are past unmet need and 81,421 are projected future need during the next ten years.

The Task Force determined that it is an unrealistic expectation for San Diego to entirely meet its housing need during the next ten years. Therefore, they adopted a somewhat more modest overall housing goal of 84,147 units for that period. This figure was calculated by adopting the highest of three different annual housing need estimates from HCD, extrapolating that figure for ten years and making an assumption that 44% of regional housing needs should continue to be met within the City of San Diego. (Approximately 44% of housing units in the region are currently located within the City.)

The Task Force also adopted the following housing production goals for individual segments of the population based on the area median income (AMI) of \$60,100 for a family of four:

Percentage of AMI	Income Category	Percent of Goal	Number of Units
<50%	Extremely low	21%	17,671
50-80%	Very low	17%	14,305
80-120%	Low	19%	15,987
120%+	Moderate and above	43%	36,183

This breakout is in accordance with SANDAG projections of future housing needs in San Diego.

Therefore, the Task Force has made recommendations on development processes, financing, landlord/tenant issues and many other topics in order to achieve the goal of having approximately 8,415 units produced in the City of San Diego each year for the next ten years, 3,197 of which should be for very low and extremely low income residents.

Attached in the Affordable Housing Task Force Executive Summary are the recommendations which the Affordable Housing Task Force finds are most urgently needed to intervene in the housing crisis in San Diego and achieve this production goal. Also included are the full reports of each of the four subcommittees of the Task Force with detailed information and background on research done, data analyzed and information considered for recommendation to the Task Force. The final series of attachments includes reference items submitted to the Task Force such as input from the public, articles of interest shared by Task Force members and presentations made by interested parties and guest speakers. This information will assist readers to understand the context of the Task Force's decisions.

CONCLUSION

The Task Force has recommended many resourceful actions that could be taken to alleviate the housing crisis in San Diego. The City Manager applauds each volunteer member of the Task Force for the dedication and time spent toward this end. The City Manager recommends that staff return to the Land Use and Housing Committee in one month with an analysis on the implications of each recommendation.

Respectfully submitted,



P. Lamont Ewell
Assistant City Manager

Attachments:

1. Affordable Housing Task Force Members and Subcommittees
2. Executive Summary of Recommendations
3. USD Real Estate Institute Report by Professor Andrew Allen
4. Report of the Subcommittee on Development, Regulations and Incentives
5. Report of the Subcommittee on Finance and Revenue
6. Report of the Subcommittee on Homeowners, Renters, and Preservation Issues
7. Letters and Presentations from Task Force Members, Members of the Public and Interested Parties

Affordable Housing Task Force Members

Janet Anderson – Sierra Club

Risa Baron – Normal Heights Community Planning Group, Chair

Nico Calavita – San Diego State University, Professor

Gordon Carrier – San Diego Regional EDC representative

Donald Cohen – San Diego – Imperial County Labor Council

Michael Conroy - Disability Advocate

Steve Doyle – San Diego Regional Chamber of Commerce Housing Committee Chair

Mike Galasso – Barone Galasso, For-Profit Developer

Robert Griswold – Real Estate Property Manager

Chuck Hoffman – SD County Apartment Association Representative

Horace Hogan II – Building Industry Association, Housing Committee Chair

Robert Kevane – San Diego Association of REALTORS

Richard Lawrence– San Diego Housing Coalition

Jack McGrory – Price Charities

Sue Reynolds – Community Housing Works, Non-Profit Developer

Father Henry Rodriguez – St. Jude's Shrine

Paul Shipstead – Bank of America

Andrea Skorepa – Cassa Familiar, Community-Based Organization

Darryl Steinhouse – Luce Forward

Michael Turk – Businessman

Subcommittee Members

Jack McGrory - Chairperson

Subcommittee 1 – Identification of Issues

Horace Hogan II– Chair

Sue Reynolds

Michael Conroy

Gordon Carrier

Subcommittee 2 – Development, Regulations, and Incentives

Michael Turk – Chair

Michael Galasso

Janet Anderson

Bob Kevane

Risa Baron

Subcommittee 3 – Finance

Steve Doyle – Chair

Nico Calavita

Paul Shipstead

Andrea Skorepa

Darryl Steinhouse

Subcommittee 4 – Preservation and Renters and Homeowners Issues

Robert Griswold – Chair

Richard Lawrence

Father Henry Rodriguez

Donald Cohen

Chuck Hoffman

Affordable Housing Task Force

Executive Summary

By almost any statistical measure, San Diego has become one of the most unaffordable cities in America. Between 2000 and 2002, the median price of an existing single family home increased by 35% compared to the U.S. average increase of 14%. The San Diego median price for a single family home is \$361,900 compared to the U.S. average of \$157,700.

Most experts attribute this price escalation in San Diego to a shortage of supply in the face of increasing demand. For example, although approximately 95,000 units were produced in the County of San Diego between 1990 and 2000, a University of San Diego study and the State Housing and Community Development Department found that during this period there was demand for approximately 170,000 units.

Furthermore, the construction of affordable housing as a percentage of the overall production is declining. In the City of San Diego between 1998 and 2002, an average of 6,313 units was built annually. While 38% of the City's households earn less than 80% of the average median income (\$60,100 for a family of four), only 985 units or approximately 16% of the units built were affordable for this income level.

Despite the history of growth management debates in San Diego, the level of housing production must be increased in order for residents of all incomes to benefit. Growth is now occurring principally by natural increases, rather than by migration. Therefore, the growth cannot be ignored.

The supply of available raw land has been virtually exhausted. Housing goals must be achieved in large part through redevelopment and increased density along transit corridors.

Addressing the housing crisis will require political courage. There are no easy solutions. The system must be changed and bold solutions must be developed. After meeting over the past six months, the Task Force identified several key themes for the Mayor and City Council to consider in order to begin to resolve this systemic housing problem.

The goals of affordable housing can only be achieved by a substantial infusion of City financial resources. This includes leveraging federal and state funds and tax credits, then using local funds to fill the gap.

It also includes reinvesting in infrastructure in older communities in order to support redevelopment. The Task Force recommends that the City begin to address the serious infrastructure problem in urbanized communities. There is a shortfall of approximately \$2 billion in infrastructure in these communities. For the City to accommodate the increased levels of affordable housing recommended, much of it must occur through

redevelopment in the older communities. These communities will require significant increases in infrastructure funding to support these new units. A new source of funds for infrastructure is critical to addressing the City's housing crisis.

The development system must be coordinated and streamlined in order to provide more affordable units. Within this context, the environment must be respected.

Finally, we need to ensure that renters and tenants are able to live in clean, adaptable and habitable housing and are treated fairly by landlords.

In keeping with these themes, the following are the key recommendations of the Affordable Housing Task Force:

- I. Community Site Identification:** Direct each community planning group to designate sites for 2,500 multi-family units over the next two and a half years, in order to be eligible for infrastructure funding. The City should work with community planning groups citywide to develop Master Plans and/or create and apply an "Affordable Housing Overlay Zone" targeting and prioritizing areas where affordable housing should be encouraged. Master Environmental Impact Reports for these targeted areas could be utilized to significantly simplify and expedite the environmental review process for all subsequent affordable/in-fill housing projects.
- II. Housing Czar:** Create a position in the City Manager's Office to focus on affordable housing to ensure recommendations of the Task Force are implemented. The position will coordinate all housing issues for the City, with a focus on affordable housing.
- III. Investment in Infrastructure:** In order to address the over \$2 billion infrastructure deficit in the City of San Diego, adopt a \$1 billion infrastructure bond paid for by an approximate \$11 per month parcel tax, which requires 2/3 voter approval.
- IV. Financial Support for Affordable Housing Projects:** The Task Force recommends that existing revenue sources should be increased for affordable housing, such as the Redevelopment Agency (RDA) Set-Aside, the allocation of CDBG funds (contingent upon approval of Infrastructure Bond above), and the reestablishment of the Housing Trust Fund Commercial Fees to its original levels. The Task Force also recommends, subject to voter approval, an increase in Transient Occupancy Tax and the implementation of a Car Rental Tax.
- V. Targeted Code Compliance:** Allocate \$1 million to increase targeted code enforcement efforts in the City using the current Rental Unit Tax.
- VI. Accessibility:** The Task Force recommends an increased emphasis on accessibility for affordable units and all housing in the City. To this end, the Task Force recommends that 25% of all public development shall incorporate the principles of universal design and progress shall be monitored closely and reported to ensure achievement of this goal.

While the themes listed above found wide support within the Task Force and are deemed immediately necessary to address the housing crisis in San Diego, there are additional actions the Task Force recommends the Council review closely and implement as appropriate to continue to address other aspects of the affordable housing problem. A summary of all of the recommendations supported by the Affordable Housing Task Force are listed below along with the Task Force votes on each issue and can be found in more detail in the subcommittee reports in the following appendices. The recommendations here have, in some circumstances, modified the recommendations by the individual subcommittees.

1. Housing Goal

- a. The Task Force adopted an estimate of housing need for the next ten years based on anticipated population growth and anticipated employment growth. The total housing need figure adopted for the 2003-2013 period is 113,696 of which 32,275 is past unmet need and 81,421 is projected future need during the next ten years. (Adopted 12 in favor-0 opposed-8 absent)
- b. The Task Force determined that it is an unrealistic expectation for San Diego to entirely meet its housing need during the next ten years. Therefore, a somewhat more modest overall housing goal of 84,147 units, or 8,415 per year, for that period was adopted. This figure was calculated by using the highest of three different annual housing need estimates from HCD, extrapolating that figure for ten years and assuming that 44% of regional housing need should continue to be met within the City of San Diego. The goal is further broken down by segments of the population such that 38% of the goal, or 3,197 units annually, should be for households with incomes at or below 80% of the Area Median Income (AMI). (Adopted 12 in favor-0 opposed-8 absent)

2. Financing/Revenue

- a. Of the 3,197 affordable units to be produced each year, we assume 700 of these units will be created by the existing inclusionary housing requirements and 100 through density bonuses. Assuming local funding of \$50,000 per unit is required to match State and federal dollars, this will require an annual subsidy of approximately \$120,000,000. Currently, Housing Commission Home Funds and Redevelopment Agencies Joint Housing Bonds will generate \$12,500,000 per year, leaving a required subsidy of \$107,500,000.
- b. To meet the remaining goal, the following existing revenue sources should be increased:

- i. Increase Redevelopment Agency (RDA) Set-Aside from 20% to 35% for a total of \$17,500,000 per year (Adopted 19 in favor-0 opposed-1 absent)
- ii. Increase the allocation of CDBG funds from 20% to 40% per year for a total of \$8,000,000 per year (Adopted 19 in favor-0 opposed-1 absent)
- iii. Reestablish the Housing Trust Fund Commercial Fees to its original levels for a total of \$7,000,000 per year (Adopted 14 in favor-5 opposed-1 absent)

These revenues sources as increased will provide \$32,500,000 per year. The Task Force recommends the increased allocation of CDBG funds assuming that the infrastructure bond described below will be approved.

- c. This leaves \$75,000,000 in additional required funding. The Task Force recommends a series of streamlining changes which will result in costs savings of approximately \$14,000,000 annually.
 - i. Standardization of documents between agencies, such as loan documentation, due diligence reports and specific developer agreements. (Adopted 17 in favor-0 opposed-3 absent)
 - ii. Delay payment of impact fees for affordable housing prior to final inspection or meter release. (Adopted 17 in favor-0 opposed-3 absent)
 - iii. Full implementation of expedite process as described in Council Policy 600-27. (Adopted 17 in favor-0 opposed-3 absent)
- d. The Task Force recommends adoption of the following revenue sources by the voters at the next general or special election to fill the remaining gap in funding of \$61,000,000:
 - i. Increase the Transient Occupancy Tax from 10.5% to 12.5% for increased revenue of \$21,000,000. (Adopted 15 in favor-1 opposed-4 absent)
 - ii. Create the equivalent of a 5% car rental tax for increased revenue of \$40,000,000. (Adopted 15 in favor-1 opposed-4 absent)

The Task Force feels that there is a nexus between these taxes and the employment opportunities created by the hospitality industry whose employees require a significant amount of affordable housing. The Task Force also recommends that a citizen group be formed to structure these tax measures in coordination with the infrastructure bond.

3. Infrastructure: Making density attractive (Adopted 17 in favor-1 opposed-2 absent)

- a. In order to address the over \$2 billion infrastructure deficit in the City of San Diego, adopt a \$1 billion infrastructure bond paid for by an approximate \$11 per month parcel tax, which requires 2/3 voter approval.

- b. Bond proceeds would be used for streets, sidewalks, park and recreation facilities, libraries and fire facilities. Funds would be distributed 70% to presently designated urbanized communities and 30% to planned urbanizing communities. This should be coordinated with the current fire and library financing plans.
- c. To qualify for eligibility for these funds, communities must identify multi-family housing sites as described in the process below [in 4.a.](#)
- d. Citizen task force should be formed using the Proposition MM approach to identify top priority facilities to be constructed in each community.
- e. The citizen task force should also develop a strategy for the two tax increases in conjunction with the infrastructure bond.
- f. Development Impact Fees should be reviewed for urbanized communities in order to ensure that "growth pays for itself" by requiring new development to pay its fair share toward public facilities.
- g. Create an "Infrastructure Bank" where builders may opt to leave existing alleys which are paved with asphalt and pave an unpaved alley with either concrete or asphalt in the same community. The City would develop a map showing where alley, curbs, and sidewalks could be replaced in the various communities. Community planning groups can develop the list and establish priorities.

4. Land availability and site identification

- a. Direct each community planning group to designate sites for 2,500 multi-family units over the next two and a half years. The community must participate to be eligible for infrastructure funding under the bond package above. City Planners will assist the community planning group if the group is unable to identify these sites. (Adopted 19 in favor-0 opposed-1 absent)
- b. The City should work with community planning groups citywide to develop Master Plans and/or create and apply an "Affordable Housing Overlay Zone" targeting and prioritizing areas where affordable housing should be encouraged. Master Environmental Impact Reports for these targeted areas could be utilized to significantly simplify and expedite the environmental review process for all subsequent affordable/in-fill housing projects. (Adopted 19 in favor-0 opposed-1 absent)
- c. Direct CCDC to make 38% of new units affordable to households earning from 0 to 80% AMI, which emphasize sufficient square footage to

accommodate families, of any composition. (Adopted 16 in favor-0 opposed-4 absent)

- d. Direct City staff to evaluate surplus public lands which are vacant or underdeveloped such as the Rose Canyon operating station (21 acres) and Montgomery Field (528 acres) for the creation of affordable housing. Staff has developed a comprehensive list of vacant public lands which should be evaluated. The City should work with the school district to construct teacher housing on surplus school sites. (Adopted 19 in favor-0 opposed-1 absent)

5. Development Processing and Incentives

- a. Affordable housing projects need to be provided with full utilization (with no additional City regulations) of the CEQA exemptions for projects of 100 units or less, priority building inspections, and maximum use of self-certification as follows:
 - i. Continue to allow Registered Civil Engineers to self-certify minor engineering approvals such grading permits and public improvements such as curb cuts, sidewalk repair, alley replacements, etc.;
 - ii. Allow licensed landscape architects to self-certify for landscape plan checks;
 - iii. Continue to allow City staff to contract with outside companies to provide inspection services;
 - iv. And continue to allow City staff to contract with outside companies to provide plan check for structural, electrical, and mechanical reviews when it takes longer than 30 days to check plans.

(Adopted 17 in favor-0 opposed-3 absent)

- b. Parking ratios for affordable housing should be reduced pursuant to a parking study conducted over the next 90 days to build a universal standard. The study should include reviews of the impact on the community and accessibility. If there is a project with a lower parking need, a project applicant should be permitted to do a study to justify this lower ratio and allow City staff, after community planning group review, to approve the revised ratio. (Adopted 17 in favor-0 opposed-3 absent)
- c. Fully implement the expedite process (Council Policy 600-27) for affordable housing projects, including maximum use of the deviation process. Amend the recently adopted process to specifically include affordable senior and affordable adaptable housing as eligible for expedited permit processing. (Adopted 17 in favor-0 opposed-3 absent)

- d. Revise density bonus regulations to provide a 50% density bonus for eligible projects, including, but not limited to, projects in transit corridors and with proximity to other public services. (Adopted 17 in favor-0 opposed-3 absent)
- e. Adopt an amendment to the Municipal Code to allow applications for Tentative Parcel Maps (subdivisions of 4 lots or less) to be acted upon in accordance with Process 1 (ministerial approval). This would only apply to projects exempt from CEQA. (Adopted 17 in favor-0 opposed-3 absent)
- f. Adopt an amendment to the Municipal Code to allow affordable housing projects to be acted upon in accordance with Process 2. The decision shall be made no less than 11 business days after the date on which the Notice of Future Decision is mailed to allow for sufficient time for public comment. This 11 business days minimum time frame for a staff decision will be extended by a period not to exceed an additional 20 business days to allow time for a recommendation by a recognized community planning group, if requested by the group's chair or the chair's designee. (Adopted 17 in favor-0 opposed-3 absent)
- g. Approve the fees required for the Affordable/In-Fill Housing and Sustainable Buildings Expedite Program, but base the fees on square-footage instead of per unit (currently \$500 per unit). (Adopted 19 in favor-0 opposed-1 absent)
- h. Reduce impact fees by 10% for all affordable housing projects affordable to households earning less than 80% of area median income (AMI). (Adopted 17 in favor-0 opposed-3 absent)
- i. Direct staff to reevaluate development impact fees for multi-family residential development in order to charge more for larger and less for smaller multi-family units. Staff should report back on providing an alternative basis for applying fees, including utilizing the number of bedrooms or total square-footage of a dwelling unit. Fees to be reevaluated include Development Impact Fees (DIF), Facilities Benefit Assessments (FBA), Water and Sewer Fees, and any other capacity-based fees. (Adopted 17 in favor-0 opposed-3 absent)
- j. The City should support State legislation for adoption of the International Residential Code. Improved building codes can reduce building costs 7-14%. The International Residential Code is widely used throughout the country and it uses more modern technology than current California codes. (Adopted 17 in favor-0 opposed-3 absent)
- k. Encourage green power housing that meets energy star ratings and generates a percentage of projected electrical needs thus providing

continuing low utility costs to enhance the affordability of the housing. City of San Diego needs to explore energy efficiency incentives that can help the developer to build a more efficient project. City of San Diego permit desk should distribute info to builders about these programs when they are submitting their project. Need to develop a handout for developers/builders. (Adopted 19 in favor-0 opposed-1 absent)

- l. Development Services should be completely overhauled from top to bottom within 3 years to make the recommended measures the norm for all projects. This recommendation can be implemented by monitoring the success of the Affordable/In-Fill Housing Program, which includes a specialized team of staff members whose primary goal is to process projects in half the time, and implementing this process for all projects City-wide. (Adopted 17 in favor-0 opposed-3 absent)
- m. Ensure that fees assessed by the Neighborhood Code Compliance Department represent full cost recovery and institute maximum punitive fees for property owners requiring repeat inspections. (Adopted 19 in favor-0 opposed-1 absent)

6. Staffing recommendations

- a. Create a Housing Czar position in the City Manager's Office to focus on affordable housing to ensure recommendations of the Task Force are implemented. The position will coordinate all housing issues for the City, with a focus on affordable housing. (Adopted 17 in favor-0 opposed-3 absent)
- b. Fully fund and staff the City's Land Development Code Update Team to implement necessary Code changes to add incentives and provide expedited review and processing for affordable/in-fill housing projects. If recommendation 8.B. below is implemented, landscape planners can be reassigned to the Code Update Team. (Adopted 17 in favor-0 opposed-3 absent)
- c. Increase capacity of the Neighborhood Code Compliance Department and City Attorney's Office to target substandard housing through an increase in resources. Approximate cost is \$1,000,000 annually for 4 FTE for the Neighborhood Code Compliance for targeted inspections and 2 full-time attorneys and 2 investigative positions in the City Attorney's Office for more aggressive prosecution. The City Attorney should provide an annual report to City Council to document their prosecutorial efforts in this area. The increased resources are to be supported by the Rental Unit Tax currently deposited into the City's General Fund. (Adopted 19 in favor-0 opposed-1 absent)

7. Affordable Housing Preservation

- a. Amend the existing Preservation ordinance to require that Single Room Occupancy (SRO) Hotels constructed prior to 1990 must, when proposing demolition or change of use, provide at least 6 months relocation assistance for senior, disabled or low-income tenants (Adopted 13 in favor-4 opposed-3 absent) and either provide a one-for-one replacement of equivalently affordable units (replacement does not have to be in downtown) or pay an in-lieu fee of 100% of the cost of replacement of the converted or demolished units. (Adopted 10 in favor-6 opposed-3 absent-1 abstention) The City should create a regulatory environment that gives incentive to construction of new housing serving SRO residents.
- b. The following requirements should be applied to all unmapped (per State Map Act) condominium conversions:
 - i. Apply 10% inclusionary housing requirements on condo conversions.
 - ii. Relocation assistance for seniors, disabled, and low-income households.
 - iii. Require that:
 - (1) Property meet building and zoning requirements at the time it was built
 - (2) Plumbing, mechanical, electrical systems be in good working order
 - (3) Roof systems be inspected by a licensed contractor, or home inspector
 - (4) Walls and roof have some insulation, or meet title 24 at the time of construction
 - iv. Down payment assistance for tenants to encourage homeownership.(Adopted 17 in favor-0 opposed-3 absent)

8. Landlord/Tenant's Issues

- a. Use the existing community resource centers and appropriate community non-profit organizations to distribute information to the public regarding tenant and landlord rights. Incorporate into the lease of all City and Housing Commission restricted or subsidized units information referring tenants to community service centers for tenant's rights information. (Adopted 16 in favor-0 opposed-4 absent)
- b. Council should direct legislative staff to pursue and/or support the following legislative issues:
 - i. Credit Reporting:

- (1) Pursue legislation that would require credit reporting agencies make copies of a tenant credit reports available to landlords for a specified amount of time, to eliminate the duplication of credit report charges.
- (2) Pursue legislation that would prevent “unlawful detainer” labels on tenant credit reports when the eviction case has been dismissed. This would prevent an erroneous opinion that they are renters that the apartment industry would not want to rent to.

ii. School Construction:

- (1) Pursue State legislation that would require the School District to replace the housing that is demolished to make way for the construction of new schools.

(Adopted 16 in favor-0 opposed-4 absent)

- c. Good Cause Termination of Tenancy ordinance for all residents whose tenancy period exceeds 24 months with the following proposed language:

"To terminate any periodic tenancy of at least two years in duration pursuant to California Civil Code § 1946, the lessor must serve, pursuant to California Code of Civil Procedure § 1162 or California Civil Code § 1946, a written notice stating good grounds upon which the lessor, in good faith, seeks to recover possession. If such statement of good grounds be controverted, the lessor shall establish its truth at the trial or other hearing."

(Adopted 9 in favor-7 opposed-4 absent)

9. Accessibility issues

- a. 25% of any and all public land, subsidies, redevelopment, collaborative funding mechanisms, bond proceeds, NOFA, etc. dedicated to affordable housing initiatives shall incorporate defined principles of universal design, accessibility for all, adaptability and visitability in all new housing, including townhomes. Should tracking measures show that there is little or no progress in number and percentages, then mandatory measures are recommended to be implemented. (Adopted 14 in favor-2 opposed-4 absent)
- b. Direct the Housing Commission, Planning Department and Development Services Department to provide information to developers regarding and encourage construction of units incorporating universal design. (Adopted 16 in favor-0 opposed-4 absent)
- c. Direct staff to track creation of adaptable housing projects in the City of San Diego and submit a status report to the City Council annually. (Adopted 17 in favor-0 opposed-3 absent)

- d. Expand the current Technical Advisory Committee's (TAC) responsibilities to devise and effectively increase accessibility and adaptability in townhomes and residential developments of three units or less. This Accessible Housing TAC will report back to the City Council with recommendations within 6 months. (Adopted 17 in favor-0 opposed-3 absent)

10. Inclusionary Housing

- a. The Inclusionary Housing Ordinance should exempt projects of 4 units or less (current draft Ordinance applies to all residential projects of 2 units or more). (Adopted 10 in favor-7 opposed-3 absent)
- b. The Inclusionary Housing Ordinance should continue to allow all projects, including "large-scale development" to pay the in-lieu fee for affordable units. (Adopted 9 in favor-6 opposed-5 absent)
- c. The Task Force voted that the structure of the shared- equity for the for-sale inclusionary housing units be changed from a 15-years buy-in period to a 30-year, straight-line amortization of the share in equity. In addition, the Task Force recommended that 3% simple interest be applied annually to the "price differential" between the initial purchase price and the appraised value at the time of purchase. (Adopted 15 in favor-0 opposed-5 absent)
- d. The Task Force voted to modify the geographic areas for off-site construction of inclusionary housing units to allow off-site units to be constructed within a 4-mile radius of the primary project rather than only locations within the same community planning area as the primary project. (Adopted 15 in favor-0 opposed-5 absent)
- e. The Task Force voted to allow developers to self-certify the eligibility of buyers' of units qualifying for the 150% AMI for-sale housing exemption for inclusionary housing. Developers would certify that buyers meet all requirements under the inclusionary housing program under penalty of perjury. Such certification would be submitted to the Housing Commission and subject to periodic audit. (Adopted 15 in favor-0 opposed-5 absent)
- f. The City Council should evaluate the Housing Commission administration fee (currently 11%) annually to ensure that it is consistent with actual staff requirements.
- g. Support legislative initiatives to protect local inclusionary housing ordinances. (Adopted 17 in favor-0 opposed-3 absent)

**CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: May 29, 2003

TO: Affordable Housing Task Force

FROM: Horace Hogan II, Chairperson
Identification of Issues Subcommittee

SUBJECT: Identification of Issues Subcommittee report to the Affordable Housing
Task Force

On behalf of the Identification of Issues Subcommittee, the final report of the subcommittee to the Affordable Housing Task Force is attached.

Estimates of the Housing Shortfall in San Diego
Abbreviated Report Prepared for the Housing Taskforce

Andrew T. Allen
Updated March 19, 2003

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Introduction

This research presents estimates of the housing shortfall in San Diego. The estimates are both backward and forward-looking. We estimate the housing shortfall for the decade of the 1990s and the expected demand for housing for the first decade of the new century. Together these estimates may be used to determine the amount of housing production needed to bring back balance to the San Diego housing market.

This research presents estimates of the housing shortfall both at the county and city level. First, we review estimates of the housing shortfall for the county during the 1990s. Because these estimates vary widely, we discuss and review the different methodologies used. We find the primary factor explaining the difference in the estimates is how the demand for housing units is calculated. The demand for housing is estimated in one of two ways: (1) based on population growth or (2) based on employment growth. These two factors do not necessarily grow at the same rate. When local employment grows faster than population, one may conclude that the region is not providing enough housing to support its growing workforce. For this reason employment growth should be used to calculate housing demand. The Association of Bay Area Governments (ABAG) takes the average of the population and the employment based housing estimates when constructing its housing element plans. We also take this approach to estimating housing demand.

The demand for housing is compared to the production of housing. A shortage of housing occurs when demand exceeds supply and a surplus occurs when supply exceeds demand. At the county level, we estimate the housing shortfall during the 1990s. Then we estimate the demand for housing up to the year 2010. Together these estimates tell how much housing production is needed countywide.

These same calculations are performed at the city level. In addition, the housing need of some specific groups is examined. We examine the housing needs of renters and homeowners. Housing needs are presented for the traditional income brackets: very low income (less than 50% of median income), low income (50%-80% of median income), moderate income (80%-120% of median income) and above moderate income (greater than 120% of income). For the most part we focus only on the total number of units needed, and do not examine (except briefly) those that are cost burdened (greater than 30% of income spent on housing) nor those that are living in substandard housing (inadequate plumbing etc.). Later this year the Census Bureau, at the request of HUD, will produce these detailed figures derived from the 2000 Census. We briefly examine the housing needs of disabled persons. This examination is brief because of the dearth of information on the housing needs of the disabled.

I. San Diego County

A. Methodology

This section describes the various approaches used to estimate the housing shortfall during the 1990s for San Diego County. Housing shortfalls are measured in one of two ways. The first method measures the *existing* housing shortfall using vacancy rates. Historically low vacancy rates mean a shortfall of housing, historically high vacancy rates mean a surplus of housing. The Association of Bay Area Governments (ABAG) includes this measure when computing *future* housing needs in housing element plans.

The second method measures *past* housing shortfalls by estimating unmet housing needs. The focus is on how many housing units should have been constructed but were not. Housing shortfalls measured in this way have been calculated by: (1) the California Department of Housing and Community Development (HCD) as described in their “Raising the Roof” publication, (2) the San Diego Chamber of Commerce (3) Myers and Park at the University of Southern California and (4) Alan Gin at the University of San Diego. Table 1 summarizes the findings from each study. The top portion of the table presents estimates for San Diego County while the bottom portion presents estimates for the State of California.

Table 1
Housing Shortfall Estimates

Author	Region	Period(s)	Housing Unit Shortfall*
Housing and Community Development	San Diego County	1980-89	79,715
		1990-94	-48,265
		1995-97	-23,709
Chamber of Commerce	San Diego County	1990-00	27,220
Gin	San Diego County	1991-00	82,591
Housing and Community Development	State of California	1980-89	662,373
		1990-94	-321,688
		1995-97	146,903
Myers and Park	State of California	1990-00	548,137

* minus sign (-) means a housing surplus

For San Diego County, the housing shortfall ranges from 27,220 housing units (Chamber of Commerce) to 82,591 housing units (Gin). In contrast the HCD study, which only covers 1990-97, finds a surplus of 71,974 housing units. The HCD data show that during the recessionary period, the county had a housing surplus (48,265 housing units). Then as the economy recovered the surplus fell (23,709).

At the state level, Myers and Park estimate a 548,137 housing unit shortfall, while HCD finds a 174,785 surplus (but again just for the 1990-97 period). The HCD data show that during the recessionary period, the state had a housing surplus (321,688 housing units). Then as the economy recovered, a deficit (146,903 housing units) occurred.

It appears there is a wide range of estimates of the housing shortfall in the 1990s. Some of the variation may be due to differences in data while some of the difference is due to a difference in methodologies used. In order to discover the source(s) of variation in these estimates we estimate the housing shortfall for San Diego County for the decade of the nineties using these methodologies with the same set of data.

The demand for housing is measured using either employment growth or population growth or some combination of the two. Some care must be taken with employment estimates. The Census measures employment by residence while the State of California Department of Employment Development Division (EDD) measures employment by place of work. Table 2 shows that there is a remarkable difference between the employment estimates produced by the Census and by the State of California. The figures suggest that there is a substantial inflow of traffic into the region as people come here to work (but do not live here). Notice also that EDD shows employment growth of nearly 20% during the decade. This fact translates into a large demand for housing as will be seen below.

Table 2
Civilian Employment San Diego County

	1990	2000	change
Census	1,145,266	1,241,258	95,992 (8.38%)
EDD	1,084,800	1,294,580	209,780 (19.34%)
difference	-60,466	53,322	113,788

Table 3 describes a general procedure for calculating the housing shortfall. All of the estimates shown in Table 1 are special cases of this general procedure. Table 3 shows that housing need based on employment growth during the 1990s was 162,620 units (Table 3, line 3). This is much greater than the housing needs based on population growth of 121,624 units (Table 3, line 6). We will see that this large difference is responsible for the wide-ranging estimates of the housing shortfall given in Table 1.

The sole use of civilian employment data suffers in that it may ignore changes in the housing needs of those that are either not civilian or not in the labor force. The civilian employment data do not include the military, an important factor in San Diego. The military compose 3% of population and changes in the military population have strong effects on the local economy. In addition, if someone is not in the labor force, because they are retired, disabled or raising a family, they still need a place to live. In the last census there were 1.2 million employed in a county with 2.8 million people.

But we do need to account for the fact some people work here but can't live here because of a shortage of housing in the region. As a compromise, we take the average of population and employment housing demands (Table 3, line 7). Including replacements of housing demolitions gives the new demand for housing to be 144,702 units (Table 3, line 9).

Additions to the housing stock come from new residential permits (95,789 units) and additions to mobile homes (1,038 units). The new supply of housing was 96,827 units (Table 3, line 12). Subtracting out an allowance for vacancies, 93,230 housing units were produced during the 1990s.

Subtracting the new supply of housing from the new demand gives a housing shortfall of 51,472 units for San Diego County during the 1990's. This estimate is in the middle of those shown in Table 1.

Table 3
Calculation of Housing Shortfall/Surplus for San Diego County
1990-2000

	1990	2000	Calculations	Remark
1 Employment	1,084,800	1,294,580	209,780	a
2 Divided by jobs/household	1.29	1.25	1.29	b
3 Equals needed household growth or			162,620	
4 Household population	2,389,651	2,716,820	327,169	c
5 Divided by persons/household	2.69	2.73	2.69	d
6 Equals needed household growth			121,624	
7 Average of (3) and (6)			142,122	e
8 Plus replacement of losses of stock (demolitions)			2,580	f
9 Equals demand growth			144,702	
10 Housing units authorized			95,789	g
11 Plus new mobile homes	45,992	47,030	1,038	h
12 Equals new supply			96,827	i
13 Less vacancy allowances			3,597	j
14 Equals occupied units produced			93,230	k
15 Subtract (14) from (9) gives shortage (+) or surplus (-)			51,472	

- a Civilian employment; number of jobs within area; SANDAG;
209,780 is 19.34% growth
- b Census DP-3 tables; jobs/(occupied housing units); here jobs are by residence
for 1990: $1.29=(1,145,266/887,403)$ for 2000: $1.25=(1,241,258/994,677)$
- c Census DP-3 tables; 327,169 is 13.69% growth
- d Census DP-3 tables; persons/(occupied housing units)
for 1990: $2.69=(2,389,651/887,403)$ for 2000: $2.73=(2,716,820/994,677)$
- e 50/50 split recommended by ABAG.
- f Demolitions average 129 per year with 200% allowance, per HCD recommendation
- g Construction Industry Research Board, 1990-1999
- h Census DP-3 tables; includes boats, RV's etc.
- i Actual change in total units 93,909
- j From owner and renter tables respectively
- k Actual change in occupied units 107,274 (vacancies fell by 13,365)

Table 4 compares the housing shortfall procedures used by the various authors referred to in Table 1 (now organized alphabetically). The table is broken into demand and supply elements. The San Diego Regional Chamber of Commerce bases demand solely on population growth while Gin uses employment growth. The HCD uses the larger of employment and population growth. All four studies use residential permits but only Myers and Park include changes in the stock of mobile homes. HCD as well as Myers and Park include demolition and vacancy adjustments while the Chamber and Gin do not.

Table 4
Calculation Element Comparison

Author	Demand			Supply		
	population	employment	demolition	permits	vacancy	mobile homes
Chamber	✓			✓		
Gin		✓		✓		
HCD	✓	✓	✓	✓	✓	
Myers & Park	✓		✓	✓	✓	✓

Table 5 gives the housing shortfall estimates for San Diego County using the calculations found in each of the authors' studies assuming we all agree to use the data shown in Table 3. Estimates of the housing shortfall for the nineties using the common data set range from 25,835 units (Chamber method) to 81,192 units (HCD method). Both Gin and HCD use demand based on employment and produces the highest demand for housing units. The HCD method picks the higher of the employment and population based demand. Myers and Park demand for housing is higher than that from the Chamber because they include demolition replacement demand. HCD includes vacancies and so gives a lower supply of housing than the Chamber and Gin. While the supply estimates are all very close, the variation in demand ranges from the low 120,000 units to the low 170,000 units or a 50,000 unit difference in demand. The variation in demand estimates is responsible for the wide variation in the estimates of the shortfall in housing.

Table 5
Revised Calculations for San Diego County

Method	Demand	Supply	Shortfall (+) or Surplus (-)
Chamber	121,624	95,789	25,835
Gin	170,915	95,789	75,126
HCD	173,495	92,303	81,192
Myers & Park	124,204	93,341	30,863

B. Demand through 2010

The difference in employment and population based estimates may be important when calculating future housing need. SANDAG forecasts nearly identical population and employment growth rates into the foreseeable future. This is in stark contrast to the behavior of these two variables over the past ten years. In the 1990s, employment growth was 19.3% while household population growth was 13.7%. In the forecast period both employment (15.9%) and household population (15.4%) grow at similar rates. As a result, population based estimates of future housing needs (159,328 units) are very similar to those based on employment (155,715 units). A future version of this paper will use past employment and population growth rates, instead of the SANDAG forecasts, to estimate housing demand through 2010.

Table 6
Calculation of Housing Need for San Diego County
2000-2010

	2000	2010	Calculations	Remark
1 Employment	1,294,580	1,500,113	205,533	a
2 Divided by jobs/household			1.29	b
3 Equals needed household growth or			159,328	
4 Household population	2,716,820	3,135,695	418,875	c
5 Divided by persons/household			2.69	d
6 Equals needed household growth			155,715	
7 Average of (3) and (6)			157,521	
8 Plus replacement of losses of stock (demolitions)			2,580	e
9 Plus new mobile homes			0	f
10 Plus vacancy allowances			6,557	g
11 Equals housing need			166,658	

a SANDAG 2030 Forecast; 205,533 is 15.9% growth

b 1990 Census values

c SANDAG 2030 Forecast; 418,875 is 15.4% growth

d 1990 Census values

e HCD recommendation

f SANDAG 2030 Forecast

g From owner and renter tables

Table 6 shows that the housing need for 2000-2010 is 166,658 units or 16,665 units per year. This much higher than the HCD need calculations sent to SANDAG by HCD in a letter dated Sept. 30, 2002. HCD calculations for the seven-and-a-half years from 2002 to mid 1009 estimate the housing need for San Diego County to be either 88, 298 units (“B” scenario) or 95,331 units (“A” scenario). The “B” scenario means 11,773 per year and the “A” scenario means 12,710 units per year. HCD calculations are based on occupied housing units. Table 7 shows SANDAG’s forecast of housing units in the year 2010 and are similar to the figures used by HCD.

Table 7
SANDAG Forecast

Year	2000	2010	Change
Household population	2,716,820	3,135,695	418,875
Occupied units	994,677	1,103,584	108,907
Persons per Household	2.73	2.84	3.85

Table 7 reports that SANDAG forecasts a rise in the number of people per household from 2.73 to 2.84. The last column shows that household population is expected to grow by 418,875 people with the addition of 108,907 units. If the households existing in 2000 keep 2.73 persons per household, then 3.85 persons per household must live in the new 108,907 units. The analysis presented in Table 6 assumes that all households have 2.69 persons per household and as a result more housing units are needed than HCD forecasts.

Combining the 51,472 unit shortfall from the 1990s with the 166,658 units needed from 2000 to 2010 gives a total demand of 218,130 units. Spread over a ten year period this means we need to produce 21,813 units per year to restore balance in the San Diego County housing market.

II. San Diego City Tables

Table 8
Distribution of Renter and Homeowner Households

Year	Renter	Owner	Total
1990	209,358	196,458	405,816
2000	227,407	223,275	450,682

Table 9
Housing Shortfall for Renters and Owners
1990-2010

Period	Renter	Owner	Total
1990-2000 Shortfall	19,264	13,010	32,275
2000-2010 Demand	43,127	38,293	81,421
Total need	62,391	51,303	113,696

A. Income

Definitions:

Very Low income household-earning 50% of the median income

Low income household-earning 50-80% of the median income

Extremely low income household-earning 80-120% of the median income

Extremely low income household-earning more than 120% of the median income

Median household income 1989 \$33,686

Very Low (50%) \$16,843

Low (80%) \$26,949

Moderate (120%) \$40,423

Median household income 1999 \$45,609

Very Low (50%) \$22,805

Low (80%) \$36,478

Moderate (120%) \$54,731

Table 10
Household Distribution 1990

Income	Renter	Owner	Total
Very Low (50%)	70,617	21,222	91,839
Low (80%)	46,252	21,999	68,251
Moderate (120%)	44,011	34,955	78,966
Above Moderate	48,478	118,282	166,760
Total	209,358	196,458	405,816

Table 11
Household Distribution 2000

Income	renter	owner	total
Very Low (50%)	82,283	27,883	110,166
Low (80%)	48,141	27,640	75,781
Moderate (120%)	42,117	40,413	82,530
Above Moderate	54,865	127,340	182,205
Total	227,407	223,275	450,682

Table 12
Gross Rent as a Percent of Household Income 1989

Income	<20%	20-24	25-29	30-34	35>	Nc	Total
Less than \$10,000	297	642	1622	1192	29063	4176	36992
\$10,000-\$19,999	1166	1813	3943	5316	34474	1362	48074
\$20,000-\$34,999	8523	13156	14044	9530	14040	1709	61002
\$35,000-\$49,999	14457	9084	5150	2440	2030	858	34019
\$50,000 or more	20672	5409	1685	1015	51	439	29271
Total	45115	30104	26444	19493	79658	8544	209358

Nc not calculated

Table 13
Homeowner Costs as a Percent of Household Income 1989

Income	<20%	20-24	25-29	30-34	35>	Nc	Total
Less than \$10,000	1215	545	552	541	4646	1018	8517
\$10,000-\$19,999	5945	1287	874	721	4741	6	13574
\$20,000-\$34,999	13182	1867	1784	2061	10303	6	29203
\$35,000-\$49,999	12788	3321	4214	4606	8383	14	33326
\$50,000 or more	41886	13290	10850	6796	7560	12	80394
Total	75016	20310	18274	14725	35633	1056	165014

1990 Census

Table 14
Gross Rent as a Percent of Household Income 1999

Income	<20%	20-24	25-29	30-34	35>	Nc	Total
Less than \$10,000	390	373	1,347	791	20,791	5,763	29,455
\$10,000-\$19,999	1,411	1,032	2,013	2,719	30,500	1,463	39,138
\$20,000-\$34,999	4,306	7,580	9,915	9,432	20,528	2,794	54,555
\$35,000-\$49,999	10,260	9,940	7,400	4,339	4,749	1,863	38,551
\$50,000-\$74,999	19,402	8,544	4,548	1,685	1,442	1,408	37,029
\$75,000-\$99,999	11,542	2,231	739	243	170	359	15,284
\$100,000 or more	11,698	705	203	88	72	425	13,191
Total	59,009	30,045	26,165	19,297	78,252	14,075	227,203

2000 Census

Table 15
Homeowner Costs as a Percent of Household Income 1999

Income	<20%	20-24	25-29	30-34	35>	Nc	Total
Less than \$10,000	140	149	176	281	4,254	1,368	6,368
\$10,000-\$19,999	2,374	946	685	459	5,635	0	10,099
\$20,000-\$34,999	7,520	1,099	998	1,228	10,145	0	20,990
\$35,000-\$49,999	8,207	1,833	2,566	3,102	9,819	0	25,527
\$50,000-\$74,999	13,945	6,456	6,835	5,800	8,715	0	41,751
\$75,000-\$99,999	12,978	7,703	5,262	2,678	2,541	13	31,175
\$100,000-\$149,999	18,861	6,435	2,868	1,591	1,283	0	31,038
\$150,000 or more	16,954	2,219	956	432	398	43	21,022
Total	80,979	26,840	20,346	15,571	42,790	1,424	187,950

Table 16
Household Needs 2000-2010 San Diego City

Income	Renter	Owner	Total
Very Low (50%)	15,624	4,724	20,348
Low (80%)	9,144	4,762	13,906
Moderate (120%)	7,973	6,940	14,913
Above Moderate	10,385	21,867	32,253
Total	43,127	38,293	81,420

Table 17
Housing Needs by Income 1990-2010

Period	Income	Renter	Owner	Total
1990-2000 Shortfall	Very Low	10,822	2,369	13,191
	Low	5,917	2,535	8,452
	Moderate	1,795	2,880	4,675
	Above Moderate	730	5,226	5,956
		19,264	13,010	32,274
2000-2010 Demand	Very Low	15,624	4,724	20,348
	Low	9,144	4,762	13,906
	Moderate	7,973	6,940	14,913
	Above Moderate	10,385	21,867	32,252
		43,126	38,293	81,419
Total Need	Very Low	26,446	7,093	33,539
	Low	15,061	7,297	22,358
	Moderate	9,768	9,820	19,588
	Above Moderate	11,115	27,093	38,208
		62,390	51,303	113,693

Table 18
 Characteristics of People with Disabilities

Subject	Number
Population 2000	1,223,400
Persons 5-20 years	266,120
Persons 5-20 years with a disability	18,785
Persons 21-64 years	708,132
Persons 21-64 years with a disability	123,891
Persons 65 years and older	124,298
Persons 65 years and older with a disability	51,310
Total Persons with disabilities	193,986

Table 19
 Characteristics of People with Disabilities

Subject	Number
Total disabilities tallied	346,719
Total disabilities tallied for people 5 to 15 years	10,702
Sensory	1,457
Physical	1,662
Mental	6,187
Self-care	1,396
Total disabilities tallied for people 16 to 64 years	232,574
Sensory	14,222
Physical	38,122
Mental	28,887
Self-care	11,622
Go-outside-home	52,045
Employment	87,676
Total disabilities tallied for people 65 years and older	103,443
Sensory	17,225
Physical	34,336
Mental	14,725
Self-care	11,618
Go-outside-home	25,539

Table 20
Housing Costs for Elderly Households (65+)
Monthly Housing Costs as a Percent of Current Income 1989

Percent	Number
Less than 5	6,500
5-9	29,300
10-14	27,300
15-19	22,000
20-24	14,400
25-29	7,600
30-34	8,100
35-39	4,700
40-49	9,400
50-59	3,400
60-69	1,500
70-79	3,300
70-99	2,100
100 or more	300

*32,800 (23%) spend over 30%

Table 21
Navy Housing Deficit*

1998	2003
3,795	4,600

*After military housing filled

References

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AFFORDABLE HOUSING TASK FORCE RECOMMENDATIONS REGARDING HOUSING NEED AND HOUSING GOALS

On April 3, 2003, the Affordable Housing Task Force unanimously adopted the following recommendations regarding housing need and housing goals for San Diego. The Task Force recognized that it is unrealistic to completely address the overall housing need during the next 10 years. Therefore they adopted a goal for 10 year housing production which falls short of the need but would still make a significant dent in the problem.

1. The overall need for new housing units for San Diego for the period 2003-2013 is 113,696 of which 81,421 is the ten year future need and 32,275 is an existing deficit stemming from past underproduction. These are figures from a study of San Diego's housing needs done by Professor Andrew Allen of the University of San Diego. These figures assume that housing need is based equally on anticipated population growth and on anticipated job growth.
2. The overall new housing production goal for San Diego for the period 2003-2013 adopted by the Task Force is 84,147 which includes an assumption that San Diego should provide 44% of regional need. This figure was calculated by adding the highest of three different ten year need estimates from the California Department of Housing and Community Development (HCD) to an estimate of the existing deficit prepared by Professor Allen.
3. The overall new housing production goal is broken out by individual segments of the population based on area median income (AMI). This break out is in accordance with SANDAG projections of future housing needs in San Diego. 21% of the goal (17,671 units) should be for very low and extremely low income households (50% or less of AMI), 17% of the goal (14,305 units) should be for low income units (50-80% of AMI), 19% of the goal (15,987 units) should be for moderate income units (80-120% of AMI) and the remaining 43% of the goal (36,183 units) should be for above moderate income units (120%+ of AMI).

**CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: May 29, 2003

TO: Affordable Housing Task Force

FROM: Mike Turk, Chairperson
Development, Regulations and Incentives Subcommittee

SUBJECT: Development, Regulations and Incentives Subcommittee report to the
Affordable Housing Task Force

On behalf of the Development, Regulations and Incentives Subcommittee, the final report of the subcommittee to the Affordable Housing Task Force is attached.

AFFORDABLE HOUSING TASK FORCE

REPORT OF SUBCOMMITTEE 2

“DEVELOPMENT, REGULATIONS, AND INCENTIVES”

(May 16, 2003)

INTRODUCTION:

The Affordable Housing Task Force was formed in order to address local affordable housing needs for the City of San Diego. The purpose of the Task Force is to identify areas of change that will result in an increase in the City’s affordable housing stock. Subcommittee 2, the “Development, Regulations, and Incentives Subcommittee”, is responsible for identifying planning and project management improvements and suggesting incentives.

The following report includes recommendations from the Subcommittee, organized by issue, topic, and/or subject:

I. INCENTIVES FOR BUILDERS OF AFFORDABLE HOUSING:

PROCESS:

1. Adopt amendments to Council Policy 600-27, the Affordable/In-Fill Housing Expedite Program, as recommended by the City Manager. This new program will reduce the permit review process by about 50 percent.

Subcommittee 2 recommends that this Council Policy be revised as follows:

- A. Affordable “Senior Housing” should be specifically listed as a project eligible for expedited permit processing.
 - B. Affordable “Adaptable Housing” should be specifically listed as a project eligible for expedited permit processing, and listed as a #10 priority. For this policy, adaptable housing is defined as housing of three units or less and/or townhomes that provide the following: 1) housing with one zero-step entrance on an accessible path of travel; 2) doorways that are 32 inches clear throughout the floor plan; 3) basic access to at least a half bath on the main floor; 4) light switches, electrical outlets, thermostats and other controls in accessible locations; 5) reinforced walls for grab bars; 6) usable kitchens and bathrooms.
2. Adopt an amendment to the Municipal Code to provide City staff with the authority to expire discretionary permit applications after 90 days of inactivity, as recommended by the City Manager.

3. Adopt an amendment to the Municipal Code to allow affordable/in-fill housing projects to deviate from development regulations as recommended by the City Manager. This will provide a significant incentive for builders of affordable housing, and will encourage well-designed multi-unit projects within urban in-fill areas.
4. Adopt an amendment to the Municipal Code to allow applications for Tentative Parcel Maps (subdivisions of 4 lots or less) to be acted upon in accordance with Process 1 (ministerial approval). This would only apply to projects exempt from CEQA.
5. Adopt an amendment to the Municipal Code to allow affordable housing projects to be acted upon in accordance with Process 2. The decision shall be made no less than 11 business days after the date on which the Notice of Future Decision is mailed to allow for sufficient time for public comment. This 11 business days minimum time frame for a staff decision will be extended by a period not to exceed an additional 20 business days to allow time for a recommendation by a recognized community planning group, if requested by the group's chair or the chair's designee.
6. Adopt an amendment to the Municipal Code to allow reductions in parking requirements, when warranted, for certain categories of housing including affordable and in-fill housing projects.
7. As recommended in the Development Services Department's Fee Proposal, fully fund and staff the City's Land Development Code Update Team to implement necessary Code changes to add incentives and provide expedited review and processing for affordable/in-fill housing projects.
8. Adopt and/or maintain a self-certification process for the following:
 - A. Continue to allow Registered Civil Engineers to self-certify minor engineering approvals such as grading permits and public improvements such as curb cuts, sidewalk repair, alley replacements, etc.;
 - B. Allow licensed landscape architects to self-certify for landscape plan checks;
 - C. Continue to allow City staff to contract with outside companies to provide inspection services;
 - D. Continue to allow City staff to contract with outside companies to provide plan check for structural, electrical, and mechanical reviews when it takes longer than 30 days to check plans.

9. Provide “next day inspection services” to affordable/in-fill housing projects, and prioritize projects requesting “next day inspection services” based on the Carrying Capacity section of Council Policy 600-27.

FEES:

1. Approve the fees required for the Affordable/In-Fill Housing Expedite Program, but base the fees on square-footage instead of per unit (currently \$500 per unit).
2. Reduce impact fees by 10% for all affordable housing projects affordable to households earning no more than 80 percent of average median income (AMI).
3. Direct staff to reevaluate development impact fees for multi-family residential development in order to charge more for larger and less for smaller multi-family units. Staff should report back on providing an alternative basis for applying fees, including utilizing the number of bedrooms or total square-footage of a dwelling unit. Fees to be reevaluated include Development Impact Fees (DIF), Facilities Benefit Assessments (FBA), Water and Sewer Fees, and any other capacity-based fees.

II. REGULATIONS - NEW CODES OR CODE AMENDMENTS:

1. The City should support State legislation for adoption of the International Residential Code. Improved building codes can reduce building costs 7-14%. The International Residential Code is widely used throughout the country and it uses more modern technology than current California codes.
2. Encourage construction of a percentage of houses with certain universal access features for disabled persons by providing expedited review as described above in recommendation I.1B. Direct staff to track residential development utilizing universal access features.

III. ENVIRONMENTAL/CEQA:

1. Direct City staff to implement procedures expediting affordable/in-fill housing projects, including utilizing the latitude provided within California Public Resources Code Section 21080.14, which exempts affordable housing projects of 100 units or less from CEQA, provided the project meets certain qualifications.

IV. SUSTAINABLE BUILDINGS:

1. Encourage green power housing that meets energy star ratings and generates a percentage of projected electrical needs thus providing continuing low utility costs

to enhance the affordability of the housing. City of San Diego needs to explore energy efficiency incentives that can help the developer to build a more efficient project. City of San Diego permit desk should distribute info to builders about these programs when they are submitting their project. Need to develop a handout for developers/builders.

V. INCLUSIONARY HOUSING ORDINANCE:

1. The Inclusionary Housing Ordinance should exempt projects of 4 units or less (current draft Ordinance applies to all residential projects of 2 units or more).

VI. INFRASTRUCTURE:

1. Provide infrastructure enhancement priorities to communities that accept affordable housing projects. Because older neighborhoods are concerned about community infrastructure issues, there needs to be assurance that the City will work with the developer and the community to address the deficient infrastructure issues before the project is built.
2. Create an “Infrastructure Bank” where builders may opt to leave existing alleys which are paved with asphalt and pave an unpaved alley with either concrete or asphalt in the same community. This would also apply to existing curbs and sidewalks where a different type is the requirement, but the condition of the existing is good. THIS WILL BRING INFRASTRUCTURE TO COMMUNITY WITHOUT ADDITIONAL COSTS TO THE CITY OR BUILDERS. The city would develop a map showing where alley, curbs, and sidewalks could be replaced in the various communities. Community planning groups can develop list and priorities.

VII. COMMUNITY PLANNING GROUPS:

1. Direct each Community Planning Group within the City of San Diego to propose the location of where a total of 2,500 multi-family units can be located within their community plan boundary.

Location of first 500 units no later than 11/1/03
Location of second 500 units no later than 5/1/04
Location of third 500 units no later than 11/1/04
Location of fourth 500 units no later than 5/1/05
Location of fifth 500 units no later than 11/1/05
2. Direct each planning group to identify in order of priority the specific infrastructure needs they will require to accept the foregoing density. The required public improvement must bear a reasonable economic relationship to the

size of the residential project being proposed. As defined herein reasonable shall not exceed \$10,000 per dwelling unit.

3. Identified infrastructure land or improvements shall be acquired or installed and paid for by the City of San Diego (or designee) simultaneous with the construction of the specific multi-family units.
4. If for any reason a particular planning group is unable to complete this task within the timeframe set forth herein, the city planner assigned to that planning group will work closely with the planning group to complete the designation of appropriate locations.
5. The City should work with community planning groups City-wide to develop Master Plans and/or create and apply an “Affordable Housing Overlay Zone” targeting and prioritizing areas where affordable housing should be encouraged. Master Environmental Impact Reports for these targeted areas could be utilized to significantly simplify and expedite the environmental review process for all subsequent affordable/in-fill housing projects.

VIII. CITY STAFF AND DEVELOPMENT SERVICES DEPARTMENT CHANGES:

1. Create a position in the City Manager’s Office to focus on affordable housing to ensure the Affordable Housing Task Force’s recommendations which the City Council adopts are implemented. This position will coordinate all housing issues for the City, with a focus on affordable housing.
2. Development Services should be completely over hauled from top to bottom within 3 years to make the above measures the norm for all projects. This recommendation can be implemented by monitoring the success of the Affordable/In-Fill Housing Program, which includes a specialized team of staff members whose primary goal is to process projects in half the time, and implementing this process for all projects City-wide.

IX. ACCESSIBLE HOUSING TECHNICAL ADVISORY COMMITTEE:

Expand the Technical Advisory Committee’s (TAC) responsibilities to devise and effectively increase accessibility and adaptability in townhomes and residential developments of three units or less, through a variety of methods including but not limited to the provision of incentives. This Accessible Housing Technical Advisory Committee will report back to the City Council with recommendations within 6 months of issuance of the Affordable Housing Task Force report.

X. AFFORDABLE HOUSING DENSITY BONUS:

Adopt the City Manager's recommendation to revise the Density Bonus regulations to offer up to a 50 percent density bonus for suitable projects (Suitability based on variety of factors such as location of transit, proximity to retail, medical services, schools, parks etc.).

**CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: May 29, 2003

TO: Affordable Housing Task Force

FROM: Steve Doyle, Chairperson
Finance Subcommittee

SUBJECT: Finance Subcommittee report to the Affordable Housing Task Force

On behalf of the Finance Subcommittee, the final report of the subcommittee to the Affordable Housing Task Force is attached.

Recommendations and Report:
of the Affordable Housing Task Force

May 29, 2003

FINAL

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Recommendations **A**

Report **B**

Section 1: Introduction

Section 2: Description of Problem

Section 3: Description of Issues

Section 4: Description of Infrastructure Needs

Section 5: Conclusion

Appendix **C**

RECOMMENDATIONS:

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

The Task Force found:

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

The Goal is 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%
Goal	84,147		17,671	14,305	15,988	36,183
		8,415	1,767	1,430	1,599	3,618

The Task Force found for the production of Very Low and Low Income rental units, a per unit Gap of \$50,000.

**Gap Analysis
Annual Need**

	Demand	Less FUA & Inc. Zon. Prod. **	Gap	Total Subsidy
Goal VL&L	3,197	- 700 = 2,497	x \$50,000 =	\$124,850,000

To begin to reach this Goal the Task Force recommends:

- 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)**

If the cost savings identified below were applied to each of the units, the savings could be:

<u>Savings</u>				<u>Number of Units</u>	<u>Total Annual Savings</u>
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

- 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. The Goal for Local Funding for the provision of 2,497 low and very low affordable housing in San Diego is \$124,850,000 annually. Adopting the

increases to Local Funding Sources under control of the City (Recommendation 1, above) will reduce that amount to \$86,567,000. The adoption of Recommendation 2 above would save an estimated \$9,988,000 annually, **leaving an unfunded annual goal of \$76,579,000.**

- 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.

i. Revenue Sources	Dollars Raised Annually
(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.

The Task Force recommends that the City begin to address the serious infrastructure problem in the 24 urbanized communities. These communities have historically accepted, voluntarily or involuntarily, higher levels of density than the rest of the City. At the same time, the City has not provided the necessary public infrastructure to support these densities. There is clearly a shortfall of approximately \$2 billion in infrastructure in these communities.

For the City to accommodate the increased levels of affordable housing we recommend, much of it will occur through redevelopment in the older communities. These communities will require significant increases in infrastructure funding to support these new units.

Prior to Proposition 13, the City historically committed one half of sales tax revenues to the Capital Improvements Program. In today’s dollars, this would be almost \$100 million annually.

- a. We recommend that the Council approve a \$1 billion infrastructure bond supported by a \$12 per month parcel tax to be placed before the voters, which will require 2/3 approval, in the next special or general election. This bond would be principally used for streets, sidewalks, streetscapes and park and recreation facilities. It could also be used for fire and library facility needs not addressed by the current financing plans approved by City Council. The proceeds should be split 70% to urbanized communities and 30% to planned urbanizing communities to ensure that the citywide needs are addressed. (Approved, with one abstention.)

The Task Force also recommends the following actions:

1. Approval of this concept
2. Formation of a citizen’s task force to structure the bond
3. Eligibility of community, based on identification of sites for multi-family units, and identification of facilities to be constructed in each community, similar to Proposition MM

b. The City Council will direct the City Manager to reevaluate the Development Impact Fees (DIF) in older communities.

c. As an alternative, the City Council shall put before the voters, various initiatives to generate a like revenue stream. Sources of revenue may include:

<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
Total	\$181,400,000

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

16-Apr-03

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City/County	From Source	Tax or Fee	Manchester Voter Requirement	Basis of Levy	Annual Revenue Generated	Assumptions	Nexus Rating (1-3)	Priority Rating (1-5)	Reality Rating (1-5)	Comments	Other Potential Uses Of Revenue Generated
1	T.O.T.	50% if general, 20% if special	20 rds	City-wide	\$10.2 million	Based on current revenues, per 1% incr	1	1		From Manager's Report 03-061R	Most infrastructure items
2	T.O.T.	50% if general, 20% if special	20 rds	City-wide	see above	Analysis for fixed portion of receipts or percentage of growth?	1	1		Alternative analysis	Most infrastructure items
3	Bus. Lic. Tax	50% if general, 20% if special	20 rds	City-wide	\$16.5 million	Small bus. Tax from \$34 to \$74/yr. Large bus. from \$125 to \$250 & \$9/emp to \$80/emp/yr	1	1		From Manager's Report 03-061R	Most infrastructure items
4	Ticket Tax (Entertainment Sports, Movies...)	20 rds	20 rds	City-wide	\$4.9 million	5% of ticket revenue	1	1		From Manager's Report 03-061R and staff input	Most infrastructure items
5	Inclusionary Housing Fee	none	n/a	City-wide	\$6.5 - \$8.6 million	As per ordinance	1	1		Special Fund - HC estimate	Housing only
6	20% COBG for AH	none	n/a	City-wide	\$1.78 million	20% of \$19.92 MM less \$2.00 MM allocated during FY 2003	1	1		Good nexus - Council Policy	Housing only
7	Increase RDA setaside	none	n/a	City-wide	\$5 million	increase from 20% to 30% creates \$5MM	1	1		Good nexus - Council Policy	Housing only
8	Car Rental Tax / Fee	50% if general, 20% if special	20 rds	City-wide	\$24 million	Tax on all car rental receipts of 3%	1	1		From Manager's Report 03-061R	Most infrastructure items
9	Increase Commercial Linage Fees	none (if meet 2.18 test as a fee)	n/a	City-wide	\$1.5 - \$5.0 million	Double existing fee	1	1		Special Fund - HC estimate	Housing only
10	1% Tax on Restaurant Receipts	50% if general, 20% if special	20 rds	City-wide	\$21.8 million	Tax on restaurant receipts of 1%	1	1		Good nexus - Staff input on revenue	Most infrastructure items
11	Employer Tax (on number of employees)	50% if general, 20% if special	20 rds	City-wide	See above	See above	1	1		See Business License Tax -	Most infrastructure items
12	Sell Naming Rights to AH projects	none	n/a	City/County-wide	TBD	philanthropic	1	1			Housing only
13	Bedrate % of any new Rev. Source @ AH	none	n/a	City-wide	TBD	Policy decision	na	1			Housing only
Subtotal					\$95 million approximately						
14	Real Property Transfer Tax	50% if general, 20% if special	20 rds	City-wide	\$6 million	Based on doubling existing 1.1% and being conforming portion to County	2	1		Conforming program gets City 0.55% today and County 0.55%	Most infrastructure items
15	Parking Lot Tax	50% if general, 20% if special	20 rds	City-wide	\$19.5 million	Tax on all parking lot receipts of 10%	2	1		From Manager's Report 03-061R	Most infrastructure items
16	Increase Landing Fees	none (if meet 2.18 test as a fee)	n/a	Airports - City-wide	\$5 million	\$0.50 per passenger based on 10 million passengers per year	2	1			Most infrastructure items
Subtotal					\$30.6 million approximately						
17	Sales Tax	50% if general, 20% if special	20 rds	City-wide	\$57 million	Based on 0.5% of current revenues	2	2		From Manager's Report 03-061R	Most infrastructure items
Subtotal					\$87 million approximately						
18	Ad Valorem Prop Tax/Override	20 rds	20 rds	City-wide on assessed value of property	\$8.8M with an inc of 0.01%	Would support \$120M bond, on \$888 million \$0.01(\$100 val @ 6% for 30 yrs varies	2	3		Available for a combination of cost issues	Most infrastructure items
19	Proneal Taxes	20 rds	20 rds	City-wide	\$8 million approximately	Can be applied locally with Prop. Owners	2	3		Available for a combination of cost issues	Most infrastructure items
Subtotal					\$8 million approximately						
20	Util. Users Tax	50% if general, 20% if special	20 rds	City-wide	\$18.5 million	Assumes \$15 per capita	3	1		Available for a combination of cost issues	Most infrastructure items
21	Franchise Tax/Fee	Negotiated w/ Utility	n/a	City-wide	see negotiated	Current total is \$38.6M @ 3%	3	1		Available for a combination of cost issues	Most infrastructure items
22	Re-use Collation	50% Charter Amend.	n/a	City-wide	\$39 million	Based on \$10/month per SF residence	3	1		From Manager's Report 03-061R Existing costs of approx. \$35 million	Most infrastructure items
23	Increase sin taxes	50% if general, 20% if special	20 rds	City-wide	> \$500 Thousand	1% sales tax inc on cigarettes, alcohol, etc ca/d on Liquor Store receipts only	3	1			Most infrastructure items
24	Increase Parking Meters	none	n/a	City-wide	\$1.1 million	increase 2 hours for parking meters	3	1		Assumes \$2,200/hr collected and adding two hours to time limit for 2500 hrs	Most infrastructure items
Subtotal					\$80 million approximately						
Total					approx. \$291.6 million/year						

Other Sources									
25	Internet Extension	2/3rds effort statewide to succeed to 5/5%	2/3rds	Countywide	\$68 for 1/2 cent \$169 for 1 cent	Based on 30 year extension	3	3	Transportation only
26	Tax on Mortgage Refi	50% if general and must be statewide	n/a	City/Countywide	TBD	% fee on all refinancings collected by County Tax Collector	3	3	?
27	Tax on Mortgage Payments	50% if general and must be statewide	n/a	City/Countywide	TBD	surcharge on mortgage payment	3	3	?
28	% of Tobacco Settlement Funds	none	n/a	Citywide	TBD		3	3	Most infrastructure items
29	Tax on carbon impact (as a fee)	none if meet 2/18 test	n/a	City/Countywide	TBD	Modeled after County of Riverside proposal			Transportation only
30	% of Auto Lic Fees	none	n/a	Citywide	TBD		3	4	Most infrastructure items
31	Increase Traffic Fines	none	n/a	Citywide	TBD	\$_____ per fine or % increase for AH	3	4	Most infrastructure items
32	User Fees	none if meet 2/18 test as a fee	n/a	For specific users of City facilities	TBD	Can be used to reduce general fund spending on libraries, parks,....	3	5	Most infrastructure items
33	Tax on Port Revenues (parking, concessions, etc)	50% if general, 2/3rds if special	2/3rds	Port District	TBD		1	na	Most infrastructure items
34	Storm Drain Fees	50%, Prop 218 challenge	n/a	Citywide	\$6M/yr by 100% inc. \$20M/yr for need	Current revenue is based on \$0.90/m \$8.87/m from residents & businesses	3	?	Offset other costs?
35	Transfer from Mun. Utilities (ROW)	None, subject to Prop. 218 challenge	n/a	Citywide	\$15.2M per 5% ROW fee on SSW enterprises	Based on 1997 budgeted amount	3	?	Most infrastructure items
36	Federal Grants	none	n/a	As needed or directed	TBD	Most grants come facility or task directed	na	1	As directed
37	State Grants	none	n/a	As needed or directed	TBD	Most grants come facility or task directed	na	1	As directed
38	Public-Private Ventures	none	n/a	For specific purposes	TBD	Example: toll roads, sporting facilities ...	na	1	As directed
39	Institute a "strong buy San Diego" program	unconstitutional	n/a	City/Countywide	TBD	With increased fees and taxes, this revenue event will increase return	na	1	Can only be policy, not law!
40	General Obligation Bonds	50% for state 2/3rds for local	n/a	Citywide	TBD	Limited by City bonding capacity and credit markets	na	3	Most infrastructure items
41	State Tax Allocations	none	n/a	City or Countywide	TBD	Requires focused efforts of local legislators and coalition building with other cities	na	na	Most infrastructure items

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.

<u>Revenue Sources</u>	<u>Dollars Raised Annually</u>
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

<u>ii. Revenue Sources</u>	<u>Dollars Raised Annually</u>
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>	Dollars Raised Annually
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>	Dollars Raised Annually
<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

<u>Infrastructure Need</u>	<u>Estimated Cost</u>	<u>Identified Funding</u>	<u>Shortfall in Funding</u>
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>
<u>Total infrastructure Needs</u>			<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:

<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>\$2,170,634,900</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

**CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: May 29, 2003

TO: Affordable Housing Task Force

FROM: Robert Griswold, Chairperson
Preservation and Renter’s and Homeowner’s Issues Subcommittee

SUBJECT: Preservation and Renter’s and Homeowner’s Issues Subcommittee report to the Affordable Housing Task Force

On behalf of the Preservation and Renter’s and Homeowner’s Issues Subcommittee, the final report of the subcommittee to the Affordable Housing Task Force is attached.

**AFFORDABLE HOUSING TASK FORCE
COMMITTEE 4- RENTERS, HOMEOWNERS, AND PRESERVATION**

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Background

Committee 4 was charged with looking comprehensively at housing issues falling under the three broad areas of renter's issues, homeownership issues, and the preservation of existing housing stock. The Committee consisted of six Affordable Housing Task Force members. They are: Robert Griswold, Chair; Donald Cohen; Chuck Hoffman; Bob Kevane; Richard Lawrence; and Father Henry Rodriguez. The Committee was also well attended by members of the public representing a wide variety of interests. The Committee invited a number of speakers, including staff from a variety of City departments to give informational presentations and answer questions from the Committee members.

The Committee met on nine occasions over a four-month period. As the Committee felt that issues facing renters and landlords posed the most complex and dire issues, much of the Committee's time was spent crafting solutions in this area.

Summary of Recommendations

- Increase capacity of Neighborhood Code Compliance and City Attorney's office to target code compliance issues through an increase in resources.
- Ensure that fees assessed by Neighborhood Code Compliance represent full cost recovery and that penalties assessed by Neighborhood Code Compliance and City Attorney's office act as a deterrent for repeat offenders.
- Develop Good Cause Termination of Tenancy Ordinance.
- Provide improved access to information and resources for Landlords and tenants at the community level.
- Amendment to the existing Single Room Occupancy Hotel Preservation Ordinance and investigation of improved regulatory environment to construct new SRO rooms.
- Develop Condo Conversion regulations.
- Support legislative efforts associated with credit reporting and demolition of housing due to school construction.
- Maximize housing opportunities in the Downtown Community Plan update.

Renter/Landlord Issues

Code Enforcement

Several of the recommendations of this report focus on addressing issues of code enforcement. Two City departments are charged with handling issues of code enforcement within the City of San Diego; Neighborhood Code Compliance and the Code Enforcement Unit of the City Attorney's office. The following gives a brief introduction to the activities and resources of each department.

The Neighborhood Code Compliance Department (NCCD) received over 39,000 inquiries in Fiscal Year 2002. These inquiries resulted in 8,256 cases related to housing, building, zoning and noise violations. Of the total number of NCCD cases, 1,741 were housing complaints that required a total of 1,080 site inspections.

From January 2002 to the present, approximately 75 cases were received by the City Attorney's office involving substandard housing violations. These cases were prosecuted either civilly or criminally. Some are still being prepared for prosecution as they were just recently received.

There are 11.0 Combination Inspectors (Building/Housing) budgeted in the General Fund for the Neighborhood Code Compliance Department for FY 03. These inspectors respond to complaints about substandard housing, building without permits, illegal grading, etc. In addition, there are 4.0 Combination Inspectors funded by grants. NCCD activities are a combination of proactive and reactive enforcement.

NCCD performed proactive code enforcement in four geographic areas of the City. These areas are Linda Vista, City Heights, Fox Canyon, and Sherman Heights. These activities are funded by Community Development Block Grants (CDBG) in FY 03. Two (2.0) Combination Inspectors are assigned areas that are designated and specifically targeted for proactive enforcement.

A full time Combination Inspector responds to complaints regarding violations of disabled access regulations in the City. This position is also funded by CDBG in FY 03. In addition to responding to complaints, the inspector proactively targets high traffic areas such as commercial centers, parking lots, office buildings and restaurants.

One Combination Inspector is funded by the California Department of Housing and Community Development and the City of San Diego through the Code Enforcement Incentive Program (CEIP). The state provides a matching grant to increase staffing levels dedicated to code enforcement of substandard housing in neighborhoods populated by high percentages of lower income households, with significant numbers of deteriorating housing stock and suspected housing violations. This three-year grant funds proactive enforcement in the communities of Grant Hill, Memorial and Stockton and expires on December 31, 2004.

Most NCCD activities are complaint driven or reactive. Increasing the number of proactive enforcement areas does not eliminate the need to respond to complaints filed with NCCD for substandard housing. The number of complaints generated from a proactive area may be reduced, but not eliminated. The public has a reasonable expectation that the City will respond to a complaint regarding an alleged violation.

Rental Unit Tax

The Rental Unit Tax is being proposed to finance recommendations of this report. The Tax is currently deposited in the City's General Fund. Receipts from collection of the Tax were \$5.1M in FY01 and \$4.9M in FY02. The Rental Unit Tax is assessed as follows:

Residential Rentals

# of Units	Base Rate	Rate per Unit
1-10	\$50	\$5
11-100	\$57	\$9
101+	\$150	\$8

* Information is from San Diego Municipal Code Section 31.0301 (b)

Hotels and Motels

# of Units	Base Rate	Rate per Unit
1-250	\$50	\$5
251+	\$57	\$9

* Information is from San Diego Municipal Code Section 31.0301 (c)

RECOMMENDATION- CODE ENFORCEMENT

- Responsive code enforcement on substandard multi-family housing with adequate resources to ensure that all serious complaints are field investigated within 72 hours, including targeted code enforcement in certain communities based on their observation of high concentrations of noted violations;
- Make reports available to residents in timely fashion;
- Dedicated code officers for substandard multi-family housing with regular inspections of substandard buildings;
- Give the City Attorney's office sufficient resources to aggressively pursue repeat violators of code enforcement laws;
- Educate landlords and tenants by distributing information in utility bills for renters, Business license tax bills for landlords/resident managers/property managers, and in Notice of Code Violations; and
- Begin tracking disability issues.

Currently, code enforcement is primarily complaint-driven. Code enforcement capacity should be expanded to allow for more responsive efforts than are currently possible and with code enforcement dedicated solely to investigate complaints of sub-standard rental housing. This would enable an aggressive campaign against the worst landlords with the support of the City Attorney's office.

Code enforcement capacity should be expanded to allow for proactive and aggressive efforts. The department should be expanded, with code officers dedicated solely to sub-standard housing. Enable an aggressive campaign against the worst landlords to be mounted, with the support of

the City Attorney's office. The City Attorney's office should be empowered/required to prosecute property managers and property owners who fail to meet health and safety requirements. Further, the City Attorney could implement punitive mechanisms to include mandatory property management and building maintenance training for repeat offenders and even require appointed third-party property managers for the worst cases.

Fiscal Implications:

\$1M of the Rental Business Tax should be dedicated through a Council Policy to fund efforts.

Staffing Implications:

Neighborhood Code Compliance should be given an addition 4 FTE's in order to mount a campaign against the most egregious slumlords and then reevaluate yearly.

The City Attorney's Office should receive sufficient funding for 2 full-time attorneys and 2 investigative positions.

(Approved by the Committee 6-0)

Code Violation Penalties

Neighborhood Code Compliance and the City Attorney's office utilize a wide variety of penalties to enforce local, state, and federal regulations. The following is a brief summary of methods used by both departments:

Monetary fines are assessed administratively or judicially for Code Violations. These fines are assessed against the property owner. The fines are deposited into the Code Enforcement Fund. The fund pays for staff training and education in addition to equipment and supplies needed for enforcement activities. It is important to emphasize that NCCD's goal is to gain compliance and ensure the health and safety of the occupants and the public. It is sometimes necessary to levy fines in order to bring the property into compliance, recover investigative costs and deter future violations.

A reinspection fee is assessed to the property owner on the third and subsequent inspection to verify compliance. The current reinspection fee for a Combination Inspector is \$52.00. NCCD is evaluating the current fee structure and will revise the fee schedule to reflect changes in personnel and non-personnel expenses accordingly.

There are two types of administrative fines that can be assessed against a property owner who fails to correct the violations voluntarily: administrative citations and civil penalties. Fines which are not immediately paid by the owner are referred to the City Treasurer for collection via Small Claims actions or referred to the City Attorney's Office to file a civil lawsuit.

Administrative citations are assessed incrementally, starting with \$100.00, \$250.00 up to \$500.00. Administrative citations are applicable to minor violations that can be easily corrected. The amount of the penalty provides an incentive to the property owner to make the repairs rather than pay a monetary penalty and also pay for the repairs. Approximately \$37,800 was collected in FY 2002 and over \$35,300 has been collected thus far in FY 2003. These amounts include penalties for building and housing code violations and are levied under the authority of San Diego Municipal Code, Section 12.0901 et. seq.

Civil penalties are assessed by the Hearing Officer against the property owner. The amount of the penalty is based on several factors. These factors include the duration and seriousness of the violation, the good faith effort by the property owner and the economic impact of the penalty on the property owner. Civil penalties can accrue at a maximum of \$2,500 per day per violation up to a maximum of \$250,000 (effective June, 2003). Approximately \$22,000 was collected in FY 2002 and almost \$23,000 has been collected thus far in FY 2003. These amounts include penalties for building and housing code violations and are levied under the authority of San Diego Municipal Code, Section 12.0801 et. seq.

Fines are also assessed judicially. Cases that are referred to the City Attorney's Office are prosecuted either civilly or criminally. These fines take into account the seriousness of the violation and the impact of the violation on the community. The judicial actions also recoup investigative costs incurred by the City. The City Attorney's office reports that an appropriate result in a court action might be lower fines in lieu of other more meaningful sentencing terms. City Attorney's office records show that approximately \$100,000 in judicial fines and investigative costs were collected since January 2002 in cases involving substandard housing violations.

For the most egregious violators, Sections 17274 and 24436.5 of the California Revenue and

Taxation Code provide, in part, that a taxpayer, who derives rental income from housing determined by the local regulatory agency to be substandard for over six months, cannot deduct interest, depreciation or property taxes from state personal income tax. NCCD sends the substandard notices to the Franchise Tax Board if the property is not in compliance within six months. Property owners may appeal the notices to the City's Housing Advisory and Appeals Board.

In addition to the above monetary penalties, other remedies may used, including: attendance of the San Diego Police Department's landlord/tenant training; and/or the requirement to retain a property management company. The City Attorney may also request the court to:

- appoint a receiver to make necessary repairs or secure rehabilitation loans;
- order the sale of the property due to the owner's inability to manage the property; and/or,
- stay fines so that the owner has the cash-flow to make immediate repairs under the Court's supervision.

RECOMMENDATION- CODE VIOLATION PENALTIES

Neighborhood Code Compliance would increase fees for repeated inspection of rental properties where violations had not been corrected or in the case of multiple different violations within a defined period of time, to ensure cost recovery. Code Enforcement should charge the property owners for all related costs associated with the inspection of the rental property and assess an additional punitive fee, through a change in the Municipal Code. In addition, the City could mandate that outside property managers be hired to handle the property in question.

Fiscal Implications:

Additional staff would be needed to effectively pursue the assessment of penalties; however, additional staffing would be cost recoverable.

(Committee vote, 6-0)

Tenant Notice

Civil Code section 1946.1 of State Law requires that landlords give tenants that have maintained occupancy for at least one-year 60-days notice to vacate. For tenancies of less than one year, 30 days notice is required. Tenants must be given 60-days notice for any rent increase over 10%. No specific reason is required to be given by Landlord to remove a tenant or raise rent; however, all State and Federal laws must be complied with.

RECOMMENDATION- GOOD CAUSE TERMINATION OF TENANCY ORDINANCE

Good cause eviction controls protect renters by ensuring that landlords cannot arbitrarily terminate tenancies. The committee proposes a Good Cause Termination of Tenancy ordinance for all residents whose tenancy period exceeds 24 months with the following proposed language:

"To terminate any periodic tenancy of at least two years in duration pursuant to California Civil Code § 1946, the lessor must serve, pursuant to California Code of Civil Procedure § 1162 or California Civil Code § 1946, a written notice stating good grounds upon which the lessor, in good faith, seeks to recover possession. If such statement of good grounds be controverted, the lessor shall establish its truth at the trial or other hearing."

While the controls provide protections for renters, landlords retain the right to terminate a tenancy for any reason which is not "bad faith" or for unlawful intentions or reasons. Renters will also benefit by knowing in writing the reasons that the landlord is seeking to terminate the tenancy so that they can begin a dialogue to resolve any issues short of actually vacating or at least learn the reasons so that they can ensure the same issues do not occur again.

The Renter/Landlord Resource Center could begin to publicize the new ordinance. Landlords could give renters information upon move-in.

(Committee vote 3-2, Cohen absent. Note: Griswold prefers the ordinance apply after a 2-year tenancy period as he feels that landlords would not offer a 12-month lease and/or be inclined to immediately terminate a tenancy for any minor problems that surface in the first 11 months to avoid being subject to this ordinance. This would lead to a lack of stability in the rental market and be detrimentally for both tenants and landlords. Whereas, tenants with the 2+ years in tenancy would have additional rights and thus would be inclined to remain tenants rather than change locations for the latest rental special or concession. The increased stability of a 2-year tenancy would benefit both renters and landlords and their entire communities. Note: Task Force vote change term of tenancy from one year to two years.)

RECOMMENDATION- RENTER/LANDLORD INFORMATION AND REFERRAL

The City should provide improved access to pertinent information regarding renter/landlord rights and referrals to existing mediation, counseling, and other sources of information for both tenants and landlords.

The “Housing Czar” position, as proposed by Committee 2, will coordinate efforts, including the development of informational brochures that will be accessed at Neighborhood Community Centers, libraries, and other relevant public facilities and community-based non-profits providing social services.

In addition, information on where these services are available should be included in all leases for publicly funded projects.

Fiscal Implications:

The program should be funded by the existing Rental Business Tax, which is currently deposited in the General Fund.

(Item changed in Task Force, not voted on in committee)

Preservation Issues

Single Room Occupancy Hotel Regulations

The City's SRO Hotel Regulations are found in Municipal Code Section 143.0510 et. al. The Ordinance has two major provisions; tenant relocation and housing replacement.

The Ordinance requires that landlords pay qualified tenants relocation assistance equal to 2 months rent plus \$10 per month for each month of occupancy over 90 days up to \$210.

In addition, a landlord would be required to replace SRO rooms that were removed from supply through one of three methods: 1) construction of new SRO rooms (one for one replacement); 2) conversion or rehabilitation of a property to replacement lost stock (one for one replacement); or 3) payment of a mitigation fee equal to 50% of the cost of replacement of units based on current development costs.

RECOMMENDATION- SINGLE ROOM OCCUPANCY HOTEL REGULATIONS

Amend the existing Preservation ordinance to require that SROs constructed prior to 1990 must do the following when proposing demolition or change of use:

- At least 6 months relocation assistance for senior, disabled or low-income tenants; and,
- One for one replacement of equivalently affordable units, replacement does not have to be in downtown; or,
- In-Lieu fee of 100% of the cost of replacement of the converted or demolished units.

Create a regulatory environment that gives incentive to construction of new housing serving SRO residents.

(Committee vote, 6-0)

Condominium Conversion Regulations

The City of San Diego does not currently regulate the conversion of apartments to condominiums. The ability to regulate condominium conversion is limited locally due to the State Subdivision Map Act. Most recently constructed apartments received their subdivision approvals prior to development and are therefore exempt from any local regulation. The act of conversion in these situations is simply a change of tenure type from rental to ownership.

Local regulations would only apply to condominium conversions in which the conversion includes a subdivision of the units for purposes of individual sale. State Condominium Conversion Law, section 66427.1 of the Government Code gives certain rights to a tenant of a unit to be converted. Tenants are required to be given 180-days written notice of intention to convert prior to termination of tenancy. In addition, each tenant must be given at least 90-days notice of an exclusive right to contract for the purchase of the unit under the same or better terms that such unit will be offered to the general public.

RECOMMENDATION- CONDOMINIUM CONVERSION REGULATIONS

The following requirements should be applied to all unmapped (per State Map Act) condominium conversions:

- Apply 10% inclusionary housing requirements on condo conversions.
- Relocation assistance for seniors, disabled, and low-income households.
- Require compliance with:
 - Property must meet building and zoning requirements at the time it was built
 - Plumbing, mechanical, electrical systems must be in good working order
 - Roof systems must be inspected by a licensed contractor, or home inspector
 - Walls and roof should have some insulation, or meet title 24 at the time of construction
- Downpayment assistance for tenants to encourage homeownership.

(Approved by the Committee 6-0)

RECOMMENDATION- LEGISLATIVE EFFORTS

Council should direct legislative staff to pursue and/or support the following issues:

Credit Reporting

Pursue legislation that would require credit reporting agencies make copies of a tenant credit reports available to landlords for a specified amount of time, to eliminate the duplication of credit report charges.

Pursue legislation that would prevent “unlawful detainer” labels on tenant credit reports when the eviction case has been dismissed. This would prevent an erroneous opinion that they are renters that the apartment industry would not want to rent to.

School Construction

Pursue State legislation that would require the School District to replace the housing that is demolished to make way for the construction of new schools.

(Approved by the Committee 6-0)

Other Recommendation

Currently, the Centre City Development Corporation (CCDC) is updating the Community Plan for downtown San Diego. CCDC has developed three alternatives to guide the future growth and redevelopment of downtown. The number of housing units included in each alternatives ranges from 26,000 to 42,000 units in the next 20 years.

RECOMMENDATION- DOWNTOWN COMMUNITY PLAN UPDATE

The Task Force recommends that CCDC and the Redevelopment Agency chose the development alternative that includes the highest number of housing units, Scenario 1. This Scenario would include a total of 42,000 new housing units. The Task Force recommends that a minimum of 38% of this housing be affordable at or below 80% of the Area Median Income, a strong emphasis on family housing. This amount would be consistent with the need number identified by the Task Force.

(Item changed in Task Force, not voted on in Committee)