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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** January 11, 2008

**IBA Report Number:** 08-05

**City Council Date:** January 14, 2008

**Item Number:** 201

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# Residential High Occupancy Permit

## OVERVIEW

On Monday, January 14, 2008 the City Council will consider the second reading of the Residential High Occupancy Permit (RHOP). This item was first heard at the November 19, 2007 City Council meeting. At the November 19<sup>th</sup> meeting the City Council requested that an economic hardship waiver be incorporated into the final ordinance.

On December 20, 2007, Kelly Broughton, Director of the Development Services Department (DSD), released a memo updating the City Council on the RHOP. In the memo, Mr. Broughton stated that two versions of the ordinance (Version A and Version B) had been provided to the City Council for consideration. The main difference between the two versions was how to accomplish the goal of providing an economic hardship waiver. *However, after discussions with DSD and the City Attorney's Office, both departments agree that Version A addresses the intent of the City Council to include an economic hardship waiver and is acceptable for consideration. It is also the understanding of the IBA that Version B will, therefore, be withdrawn for City Council consideration prior to Monday's meeting.*

## FISCAL/POLICY DISCUSSION

### **Use of the Area Median Income as the basis to establish the Economic Hardship Waiver**

Version A of the Residential High Occupancy Permit uses the Area Median Income (AMI) as the basis to establish the economic hardship waiver. Section 123.0503 (c) of

the Version A Ordinance includes the following language pertaining to the economic hardship waiver:

“A fee waiver for economic hardship may be requested with the permit application and shall be granted in accordance with Process One where a property owner demonstrates to the satisfaction of the City Manager that their annual income is less than the Area Median Income.”

By definition, the AMI is the midpoint in the income distribution within a specific geographic area where 50% of households earn less than the median income, and 50% earn more. The Housing and Urban Development Department (HUD) calculates AMI levels for different communities annually, with adjustments made for family size. In most cases, AMI is the standard used to determine the eligibility of applicants for both federally and locally funded housing programs. The City of San Diego currently uses the AMI for determining affordability for a variety of regulations. The chart below details the San Diego County adjusted Median Income with the “100% of AMI Moderate Income” column representing the Area Median Income:

Family Size	50% of AMI Very-Low Income	60% of AMI Low Income	80% of AMI Moderate Income	100% of AMI Moderate Income	120% of AMI Moderate Income
1	\$24,550	\$29,460	\$39,300	\$48,600	\$58,300
2	\$28,100	\$33,720	\$44,900	\$55,500	\$66,650
3	\$31,600	\$37,920	\$50,550	\$62,450	\$74,950
4	\$35,100	\$42,120	\$56,150	\$69,400	\$83,300
5	\$37,900	\$45,480	\$60,650	\$74,950	\$89,950
6	\$40,700	\$48,840	\$65,150	\$80,500	\$96,650
7	\$43,500	\$52,200	\$69,650	\$86,050	\$103,300
8	\$46,350	\$55,620	\$74,100	\$91,600	\$109,950

When considering an application for waiver, DSD will take into account the property owner’s income and family size. It should be noted that the economic hardship waiver is for owner-occupied properties as well as rental property owners that demonstrate that their total income, including rent, is less than the AMI.

The IBA supports using the use of the AMI as the criteria to establish economic hardship. The AMI is already used by the City to establish affordability for a variety of regulations.

#### **Fiscal Impact of the Residential High Occupancy Permit**

In the Mayor’s November 14, 2007 report on the RHOP (#07-179), staff stated that it would be difficult to estimate the impacts on workload to DSD, Neighborhood Code Compliance, and the City Attorney’s Office because the volume of cases that could be

generated by the RHOP is unknown. Staff recommended that until the case load and impact on workload could be quantified, adding additional staff would be premature. Additionally, staff recommended that once the impact of the RHOP is established they would request additional resources if necessary. The IBA office has discussed workload impacts of the RHOP with Neighborhood Code Compliance and the City Attorney's Office and we agree with their plan to wait until the case load volume and impact on workload can be quantified before requesting additional resources if necessary. Staff has indicated that current cases will be handled with existing staff until that time. ***However, the IBA recommends that the staffing and workload impacts, if any, be discussed as part of the Fiscal Year 2009 Budget Hearings.***

The IBA would like to point out that if this ordinance is approved, the General Fund will reimburse the Development Services Enterprise Fund for administering the RHOP where waivers have been granted for economic hardship. At this time the total expenses are unknown but staff believes that these costs will be minimal. ***The IBA recommends that these expenses be reported to the City Council bi-annually.***

## CONCLUSION

The IBA agrees with the use of the AMI as the basis for establishing an economic waiver for the Residential High Occupancy Permit Ordinance. In addition, our office agrees with the recommendation to wait on requesting additional staff, if needed, until the impact on staff and service levels can be quantified.

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Jeffrey Sturak  
Fiscal & Policy Analyst

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APPROVED: Andrea Tevlin  
Independent Budget Analyst